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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D C 20250

SUBJECT: General Briefing Book

TO: Under and Assistant Secretaries
Agency Administrators

U.S. DEPT. OF AGRICULTURE
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MAY 1982

FROM: John S. Kermicle
Deputy Assistant to the Secretary
for Public Liaison

CATALOGING = PREP

This is a book of briefing information to assist you in answering questions you receive while speaking as a USDA representative.

It is, of course, not complete; nor is the material meant to be the definitive answer. The briefing book is an effort to supply you with brief information on USDA "facts"; on agencies other than your own; current activities receiving national attention; and other miscellaneous issues. In addition, requests for current information prior to a speaking engagement will be honored as well as special requests for material in a specific area.

It is our goal to update the Current Issues section of the book approximately every four to six weeks.

Our office has a file on farmer organizations and groups. If you wish to know more about the group you are speaking to, this information can be added. Please allow 3-5 days.

Comments on the content and suggestions for additions (or subtractions) would be most welcome. Please call x72798.

There has never been a more important time than now for us to communicate the initiatives of this administration to the public. We hope the following pages will in some way be of help to you in doing just that--telling the exciting story of agriculture.

IT HAS UPDATES; CSR IS ON THEIR
MAILING LIST.

Bob 4/2/82

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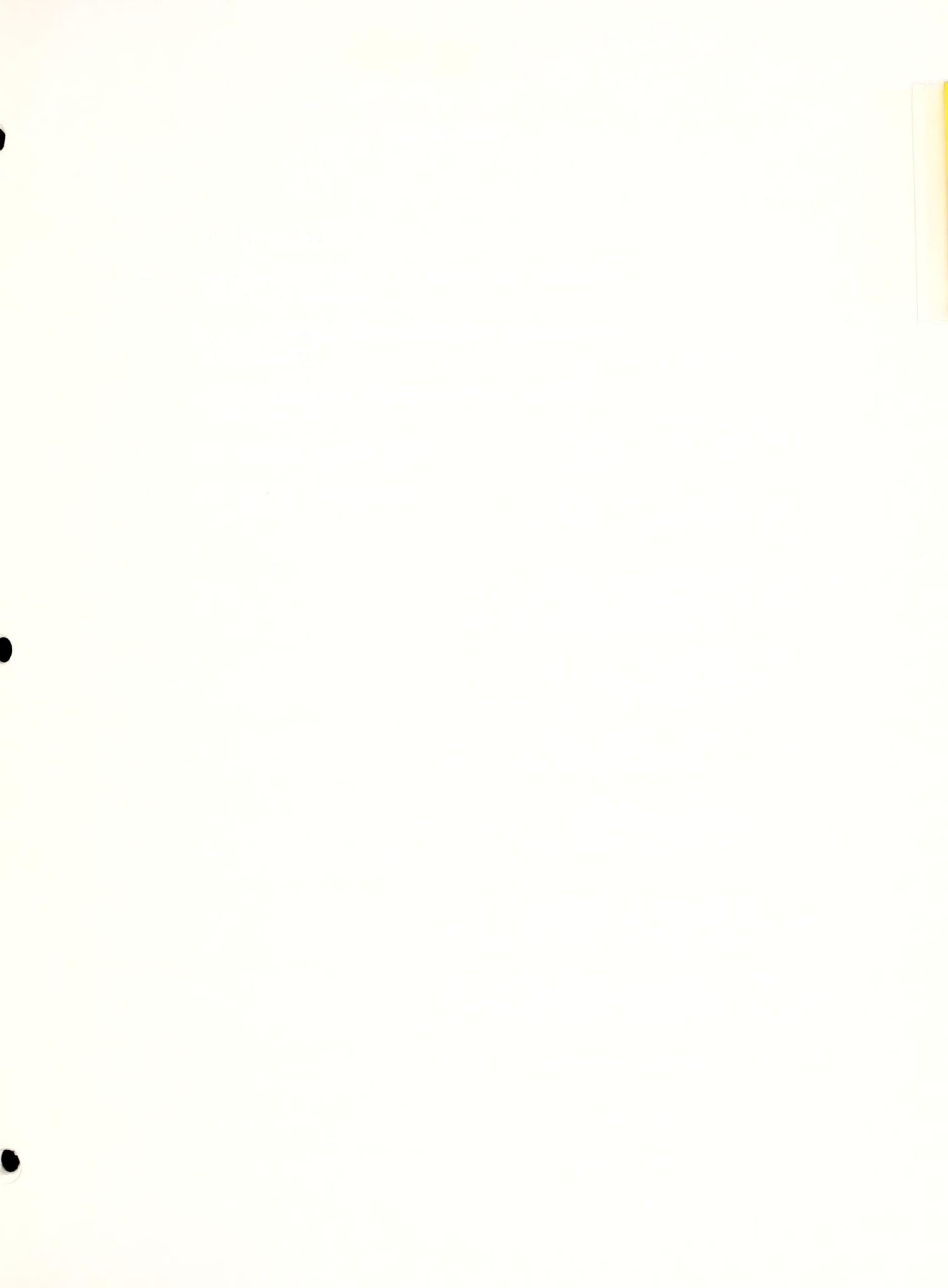
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USDA OVERVIEW

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I. U.S. AGRICULTURAL FACTS

- The U.S. agricultural system is the most productive in the world, and it exhibits one of the highest productivity growth rates of any sector of the U.S. economy. Agricultural output has increased over 70 percent since 1950, while total input use has increased by only 4 percent.
- Agriculture as an industry is the nation's largest employer. Agriculture forms the foundation for 23 million jobs--1/5 of the nation's labor force.
- The agricultural industry accounts for \$400 billion or 20 percent of the Nation's Gross National Product (GNP).
- U.S. agriculture has a trade surplus reaching about \$27.3 billion, while nonagricultural trade shows a deficit of nearly \$50 billion.
- Ten years ago, our exports provided 15 percent of total cash receipts for U.S. farmers. Today exports provide nearly 30 percent. For crop farmers, exports bring in more than half of their cash returns.
- We export 60 percent or more of our country's wheat and rice, and about 40 percent of our soybeans. About half of our cotton and a third of our feed grains and tobacco are exported.
- Looking through the eyes of the world--that means the United States provides about 40 percent of world exports of wheat and over 60 percent of feed grains--we supply 57 percent of all soybeans and soybean meal.
- Exports are expected to reach \$44.8 billion, 10.4 percent greater than last year's record (\$40.5 billion). Agriculture imports are estimated to be \$17.4 billion--leaving a favorable balance of \$27.3 billion.
- Japan is the largest single-country market (since 1964). In 1970, Japan was our first billion-dollar customer, reaching imports of \$6.1 billion in 1980.
- United States production exported to Japan has the acreage equivalent of 14.6 million acres nearly equal to the acreage Japan has available for use in domestic production (14.7 million acres).
- In 1978, we exported only 606,000 bales of cotton to China. In the 1979 marketing year, we exported 2.2 million bales to China. During the 1980 marketing year, cotton exports to China totaled 1.3 million bales.
- The European Community and the United States account for only 11 percent of the world's population--yet these countries together account for about half of all world trade including about half of all agricultural trade.
- Every dollar that is returned to the farm sector from exports is more than doubled in the economy.
- One out of every three acres of cropland produces food for export.
- Realized net farm income (below inventory adjustment) was down in 1980 to \$21.9 billion. Earlier projected figures for 1981 indicated \$28-\$32 billion. These projections have been revised downward to roughly \$19 to \$23 billion. This is still well below the 1979 level.

II. CASH RECEIPTS, NET FARM INCOME AND COMMODITY SITUATION SYNOPSIS

<u>Cash Receipts</u>	<u>1981 (forecast)</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	----- (Bil. Dols.)	-----	-----	-----
Crops	74	69.0	63.4	53.7
Livestock	70	67.4	68.5	59.2
TOTAL	<u>144</u>	<u>136.4</u>	<u>131.9</u>	<u>112.9</u>
<u>Realized Net Farm Income</u>	<u>1981 (forecast)</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
U.S. (Bil. dols.)	19	21.9	27.4	25.9

Agricultural Situation in the United States:

- In 1981, cash receipts from farm marketing will increase by about 5 percent. On average, production expenditures increased by 8 to 10 percent.
- The Farm Credit System's interest rates are between 15.6 and 16.2 percent for operating loans and between 11.3 to 12.3 percent for long term loans.
- Cash receipts and net farm income for 1981 will not meet the projections made last fall. Factors moderating this year's income outlook include: (1) disappointing livestock receipts; (2) more favorable weather and the outlook for large 1981 crops here and abroad; (3) continuing high interest rates; and (4) the strengthening dollar.
- Commodity Situations:

Feed Grains--Feed grain output for 1981/82 will be much higher than the 198 million metric tons produced last year. The feed grain crop is forecast at a record 245 million tons, up 24 percent from last year, and 3 percent from the record 1979 crop. Harvest of all feed grain crops is expected to be excellent, but the biggest factor is the record 8.08 billion bushel corn crop. This has resulted in expected low corn prices for the fall quarter of \$2.50 to \$2.60 per bushel, down from the \$3.09 fall quarter average for 1980.

Wheat--The 1981 U.S. wheat crop was a record 2.75 billion bushels, up 16 percent from last year. This huge crop was brought about because of a 10 percent increase in planted acreage (an all time high 88.8 million acres), a nearly 14 percent increase in harvested acreage and a near record yield of 34.1 bushels per acre, about 1 bushel higher than 1980. Wheat prices for the season are expected to range from \$3.80 to \$3.95, slightly less than last year's \$3.96 per bushel.

Soybeans--Planted acreage for the 1981 crop was 68.1 million acres, down from 70.1 million acres last year. Soybean production is forecast at 2.1 billion bushels, 18 percent above 1980. The 1981 projected farm price is between \$5.50 and \$7.00 per bushel, down from the \$7.61 average in 1980.

Cotton--Cotton production is expected to increase by 39 percent above last year's drought reduced level--11.1 million bales. Production is forecast to be around 15.5 million bales. This increase is due to better yields, since the amount of planted acreage is approximately 2 percent below 1980 plantings.

Cattle--Beef production will average 1 to 2 percent above last year in the second half of 1981. Cattle slaughter is expected to increase by about 3 percent in 1981. Choice steer prices may average \$66 to \$70 in the first half of 1982. Choice steer prices next summer may average slightly above the first half average, before declining to near \$66 to \$70 again next fall.

Hogs--For 1981, production will be almost 15.5 billion pounds, 6 percent less than in 1980, but still the second-largest output on record. Hog prices are expected to recover and average \$46 to \$48 per cwt. for the fall quarter; still below the cost of production for most producers. First half 1982 prices are expected to be relatively the same.

Dairy--Milk production for all of 1981 will likely be 2 to 3 percent above 1980's 128.4 billion pounds. Wholesale prices of cheese, butter, and nonfat dry milk have remained nearly unchanged since last fall and are likely to remain the same until late summer. However, the all-milk price is expected to be 7 to 9 percent above the 1980 average of \$13.00 per cwt. The United States exported \$43.8 billion in agricultural products in fiscal 1981. Of this total, feed grains and products accounted for 23.8 percent, wheat 18.2 percent, and soybeans and products 18.3 percent.

III. Status of
REAGAN ADMINISTRATION
AGRICULTURAL INITIATIVES

GOAL: The placement of farmers in leadership and policy roles in USDA.

ACCOMPLISHMENTS: The agricultural backgrounds and experiences of Secretary Block, Deputy Secretary Lyng, the Under and Assistant Secretaries, Program Administrators, and their staffs indicate a successful attainment of this goal.

GOAL: The aggressive expansion of agricultural exports and a commitment to not single out the American farmer to bear alone the burden of any possible future embargo.

ACCOMPLISHMENTS: USDA has stepped up its export drive through the following:

- A. USDA followed up on President Reagan's lifting of the embargo on sales to the Soviet Union by participating in three meetings with Soviet officials during the summer and early fall to get exports moving again. In order, the meetings (1) provided for additional purchases by the Soviet Union in the final year of the agreements, which ended September 30; (2) extended the agreement for one year; and (3) authorized additional purchases by the Soviet Union of up to 15 million tons of wheat and corn during the new agreement year.
- B. USDA sent joint government/industry grain teams and soybean oil teams to nine developing countries in North Africa, Latin America and the Far East as part of an intensified export expansion campaign.
- C. Secretary Block led two trade missions, one to the European Community last spring, and the other to Japan, Korea and China in October. His primary objective in the EC was to lay the groundwork for a concerted effort to alleviate trade-restricting and distorting practices by the EC. In the Far East, he discussed trade concerns, and stressed the reliability of U.S. supplies and ways to increase U.S. exports to the host countries.
- D. To help in expanding markets for U.S. farm exports, the Department in the space of two fiscal years has increased the ceiling for CCC export credit loan guarantee program by \$500 million, to \$2.5 billion.

- E. A USDA group is working to develop a program to expand markets for value-added U.S. agricultural products, emphasizing opportunities in the oil exporting countries.
- F. Secretary Block and Mexico's Commerce Minister Jorge de la Vega signed an agreement June 9 providing that Mexico may purchase a minimum of 4.57 million metric tons of U.S. agricultural commodities in calendar year 1982. Mexico has become U.S. agriculture's second largest customer.
- G. The President has stated that should extreme circumstances call for an embargo on exports, he would never single out farmers to bear the burden alone.

GOAL: The appointment of a U.S. Trade Representative who will aggressively pursue export opportunities and the elimination of unfair trade barriers established by other countries.

ACCOMPLISHMENTS: Mr. Brock has:

- A. Convinced Korea to liberalize restrictions on U.S. exports of raisins.
- B. Asked the Japanese to move up their consultations regarding liberalization of restrictions on U.S. beef and citrus exports to Japan. If the Japanese agri-consultations will begin by the end of the year.
- C. Pressed the EC to limit its aggressive wheat flour export drive.
- D. Pressed the EC for duty reductions on U.S. almonds.
- E. Challenged the Spanish "partial export requirements" which stipulates that soybean oil produced from imported soybeans must be exported from Spain. In general the U.S. Trade Representative is against such "export performance" requirements.
- F. Scheduled a July meeting with American industry where proposals for a free trade zone among U.S./Mexico/Canada were discussed. However, the General Agreement on Tariffs and Trade Council will not adopt such a proposal.
- G. Have negotiated an agreement with the Canadians on nut imports.
- H. Made diplomatic representations to the EC on Vegetable Oil and Raisins.
- I. Started export subsidy consultations with EC on sugar and poultry.
- J. Reviewing Section 301 petitions for canned fruit and pasta.

GOAL: The full use of the Eisenhower Food for Peace Program.

ACCOMPLISHMENTS:

- A. The P.L. 480 program continues to have the potential for developing commercial customers as well as conferring humanitarian benefits.
- B. P.L. 480 is only one aspect of America's contribution in terms of food security. Other aspects include: (1) The U.S. enhances world food security by emphasizing production for export while allowing foreign suppliers access to our domestic markets; (2) The U.S. will encourage multilateral agencies to allocate more funds to the most needy countries and to devote a larger proportion of their resources to agricultural development; (3) Secretary Block has indicated that a system of national reserves, placed at strategic points around the globe, would be desirable.

GOAL: The reduction of unnecessary and counterproductive regulations and reports.

ACCOMPLISHMENTS:

- A. The day after inauguration, President Reagan created a cabinet level Presidential Task Force on Regulatory Relief, chaired by Vice President Bush.
- B. On January 29, a postponement was ordered covering "midnight" regulations issued during the last days of the Carter Administration. A sixty-day "freeze" was placed on new regulations.
- C. On February 17, President Reagan issued Executive Order 12291 which lays down procedures for reviewing existing regulations and for issuing new regulations. The order requires a review of existing regulations.
- D. On June 11, Secretary Block issued a memorandum (1512-1) indicating how the President's Executive Order is to be implemented at USDA. On June 16, James Barnes, General Counsel, issued guidelines explaining Secretary Block's memorandum.
- E. Secretary Block's memorandum required that all USDA agencies must complete an initial screening of their existing regulations by July 1 to determine which are "major" and establish a priority list and timetable for review of all existing regulations, both major and nonmajor.
- F. In March, the Presidential Task Force identified 27 regulations, including three USDA regulations for priority review. The USDA regulations were those regarding Mechanically Processed (Species) Product; Land Resource Planning Regulations for National Forest System Land; and regulations under fruit and vegetable marketing orders.

- G. The Presidential Task Force solicited suggestions from the public for regulations to be given priority review.
- H. In August, the Presidential Task Force listed additional regulations for agency review, including three USDA regulations. The USDA regulations were the regulations and policy statements under the Packers and Stockyards Act; information collection activities under the Food Stamp Program; and information collection activities under the National School Lunch Program.
- I. On July 31, the Department published proposed amendments to the regulations regarding Mechanically Processed (Species) Product and a preliminary impact analysis.
- J. In November, the Department published a study of the economic effects of fruit and vegetable marketing order regulations.

GOAL: The phase-out of estate taxes on family farms and family-owned businesses.

ACCOMPLISHMENTS: The exemption level for estate taxes is being increased from \$175,000 to \$600,000 by 1987. In addition, the top estate and gift tax rate has been reduced from 70 to 50 percent by 1985. The marital deduction has been made unlimited and estates can now be transferred between husbands and wives tax free.

GOAL: The encouragement of voluntary participation and establishment of adequate incentives essential to effective soil and water conservation.

ACCOMPLISHMENTS: On October 28, 1981, Secretary Block unveiled a comprehensive Soil and Water Conservation Program before Congress. The public will have until January 15, 1982, to comment on the program. Then a final version will be submitted to Congress by the President. The preferred program presented by Secretary Block would set the control of soil erosion as the first priority for Federal action, would target existing programs toward this as well as other priorities and would introduce matching grants to the States for conservation.

USDA officials are presently working with representatives of other departments of Federal government through the Food and Agriculture Secretariat, for the preparation of an Executive Order for the protection of prime agricultural land.

GOAL: The encouragement of a prosperous and healthy agricultural economy through the 1981 Farm Bill.

ACCOMPLISHMENTS: The 1981 Farm Bill remains unresolved. As this paper goes to the printers, Secretary Block said at the recent National Press Club luncheon that "The Department of Agriculture and the Administration has not changed its position since early this spring. We have growing cost of government that must be brought under control and the Farm Bill is no exception. The cost of the Bill must come very close to what President Reagan has suggested, or I will recommend a veto."

Therefore, the Administration's legislative proposals for agriculture continue to revolve around three basic objectives. One is to reduce the role of Government in agriculture--both in the marketplace and in the regulatory process. A second objective concerns maintaining--and increasing--growth in the productivity of the agricultural sector and in the level of agricultural exports. Finally, the Administration's proposals pursue these objectives at the minimal possible cost to the U.S. Government and provide a maximum amount of flexibility to make needed adjustments in a timely manner.

IV. APPLYING REAGAN'S ECONOMIC POLICY TO THE 1981 FARM BILL

The Administration's Economic Recovery Program is heavily focused on tax and spending cuts aimed at bolstering supply, encouraging investment, and increasing productivity. The principles of the Administration's economic policy call for a stable money supply, an economic climate that permits wages and prices to move freely, and a significantly reduced role for the Federal Government--with respect to borrowing, spending, and regulating the private sector. By limiting the Federal presence in money markets, much of the demand for scarce funds, accompanied by high interest rates, is diminished. In short, the Administration is actively pursuing those principles characteristic of a free market economy.

With the pending expiration of the Food and Agriculture Act of 1977, comes an excellent opportunity to design and implement new farm legislation that will reflect the principles of the Economic Recovery Program. The 1981 Farm Bill, as presented by the Administration, would achieve the objectives sought through the Economic Recovery Program by reducing unnecessary involvement by the Federal Government that impinges upon the entrepreneurial pursuits of the agricultural sector while at the same time, offering stability and basic protection to assure a sound and viable agriculture.

Thus, farm programs have been reviewed carefully in light of reducing unnecessary expenditures of tax dollars and promoting the role of market signals. At a time when export market opportunities for agriculture are assuming a more enduring character, exemplified by the 30 percent of total cropland engaged in export production, the promotion of agricultural competition in international markets becomes a major goal. With farm related business contributing 20 percent of U.S. employment, the strength and viability of agriculture is a major factor in the health of the national economy. Releasing

agriculture from unnecessary market restrictions will therefore contribute to the economy as a whole by improving the trade balance, reducing inflation, and providing relief to taxpayers.

While progress has been made over the past two decades in returning to farmers the freedom of deciding what and how much to produce and when and how to market their crops, the 1981 legislation seeks to continue this thrust--to further free the production potential of American agriculture. Many current farm programs, however, have become needlessly complex, and wherever possible they must be simplified. At the same time, it is necessary to provide an economic safety net and this has been continued in the 1981 legislation. The major policy issue now confronting agriculture is how to take full advantage of rapidly expanding export markets for farm products while avoiding the severe effects that rapid price changes can bring. It is important that this be accomplished without a major unwarranted Government presence in the market.

Changes in Current Commodity Programs

Dairy. The Dairy Program is currently our most costly commodity program; this is due to the incorrect signals given producers by price supports rather than by the market. This support has provided dairy farms with significant incentives to produce increasing amounts of milk, disregarding supply and demand conditions. The result has been excess production of milk and milk products with Government responding by increasing its purchases of butter, cheese, and nonfat dry milk. The taxpayer's burden for this program has risen dramatically; two years ago, CCC net outlays were \$24 million; last year, \$1 billion; and, this fiscal year, CCC net outlays will rise to \$1.6 billion.

The 1981 Farm Bill would accomplish two needed objectives for dairy:
(1) it would prevent excessive fluctuations by placing a floor on the downside,

and (2) it would moderate sharp price upswings by moving Government-owned dairy stocks into the market when prices rise. To provide flexibility, the support range for milk is recommended to be expanded, to 70 - 90 percent of parity, adjusted annually at the Secretary's discretion. This will avoid costly and unnecessary surpluses of dairy products, bring Government expenditures under control, and reduce the taxpayer burden of this program.

Grains and Cotton. Most observers expect the years ahead to be typified by a strong demand for U.S. farm products. In view of this, and the problems inherent in the use of set-asides as an effective supply restriction measure, the authority for imposing set-asides should be eliminated. However, the 1981 legislation recommends continued authority for diversion programs. Diversion programs minimally interfere in the market, by allowing farmers to decide whether to withdraw land from production, based on their perceptions of the market. In a further move to provide farmers more flexibility, the 1981 legislation recommends that the Normal Crop Acreage (NCA) authority be eliminated.

The nonrecourse loan is another tool that must be adjusted to reflect the principles of a market-oriented farm policy. The primary role of loan rates is now to provide a downside economic safety net for price stabilization and to facilitate the orderly marketing of farm products. In future years, the loan program must be responsive to farmers' needs and the dictates of the market. Rather than adopt rigid formula mechanisms, the 1981 legislation recommends adoption of discretionary authority as needed by the Secretary to set loan levels in the future.

The 1981 legislation also recommends a simplification of the farmer-owned reserve program. The reserve plays a key role in cushioning disruptive market fluctuations and strengthening our export position by presenting an important image of reliability to our foreign customers. The price at which grain enters

the reserve has been adjusted over time, to induce farmers to enter the reserve. The 1981 legislation recommends the continuation of the special reserve entry price, but that specific levels be set at the discretion of the Secretary. Further, a single reserve release trigger price, set at a level approximating the full cost of production, is recommended. This will simplify the reserve operation and assure adequate investment returns to farmers.

The 1981 legislation also proposes the elimination of the target price/deficiency payment program. By eliminating the target price, the program is further simplified by moving away from a host of unnecessary features--national program acreages, allocation factors, farm program acreages, and payment limitations--and unnecessary budget exposure for farm programs is reduced.

The cotton industry has worked hard to help create a market-oriented program. The 1981 legislation continues this goal, suggesting the following changes in an attempt to develop a consistent program with wheat and feed grains:

- To reduce regulation by abolishing NCA's, national program acreages, allocation factors, and farm program acreages;
- To simplify production control provisions by abolishing set-aside authority, and retaining authority for diversion programs;
- To enhance market influence by eliminating the target price program; and
- To establish loan rates that permit effective program operation, and allow adjustment to changing economic conditions.

Rice and Peanuts. Rice producers are now largely free from rigid Government programs with both allotment holders and new producers expanding acreage. The 1981 legislation proposes a rice program consistent with that for wheat and feed grains; in addition to adopting the changes proposed for the cotton program, the rice program would also include suspension of allotments.

In order to permit U.S. farmers to compete more strongly in world markets, and to continue the transition of peanuts to a program less hampered by Government regulation, the 1981 legislation proposes the abolishment of acreage allotments for peanuts. The poundage market quota would be maintained, but reduced by 10 percent each year; and, loan rates for quota and additional peanuts would be established at the discretion of the Secretary. These proposals would allow farmers without allotments to grow peanuts for the export market if they find peanuts to be a profitable enterprise. Manufacturers and exporters have an incentive to expand markets because they would be able to obtain more peanuts by offering producers price incentives according to market demand.

Research and Conservation. The goals of the Economic Recovery Program, improving productivity, encouraging investment, and reducing the stifling influence of the Federal Government on these pursuits of the private sector, suggest important roles for research and conservation. Research has played a vital role in helping America's farmers achieve an unsurpassed position in world agricultural economy, the need to concentrate effort on achieving high rates of productivity increases. Productivity per farmer has grown faster in America than in any other country; our university research and extension institutions are a model frequently imitated around the world. The 1981 legislation renews the emphasis on basic productivity-oriented research and extension as a major contribution to efforts to expand production capacity and exports.

One fruitful area of research currently being conducted, and in need of strong support, is the area of conservation. Cropland use has expanded by 5 million acres per year over the last five years and is more intensively used than it has been in the past. In areas where erosive land is concentrated,

damage to soil and water resources can be very severe. To complement the pursuit of increased productivity, conservation research deserves serious attention. However, rather than propose hasty modifications of existing programs, a thorough study and evaluation of these programs is warranted. A sound conservation program should be simple to understand and effective, focusing incentives where needed, and providing an adequate level of control to protect land and water resources. Furthermore, a conservation program should reflect the broader objectives of American agriculture, and be cohesive with the rest of our farm programs. A presentation of findings and proposals is planned for early 1983.

This is certainly not the total picture of the Administration's proposed legislation. The Farm Bill covers a wide range of activities--including many commodity programs, agricultural research, and soil conservation. In the process of writing this piece of legislation, the Executive Branch, Congress, farm groups, consumer groups, and interested individuals all influence the final product.

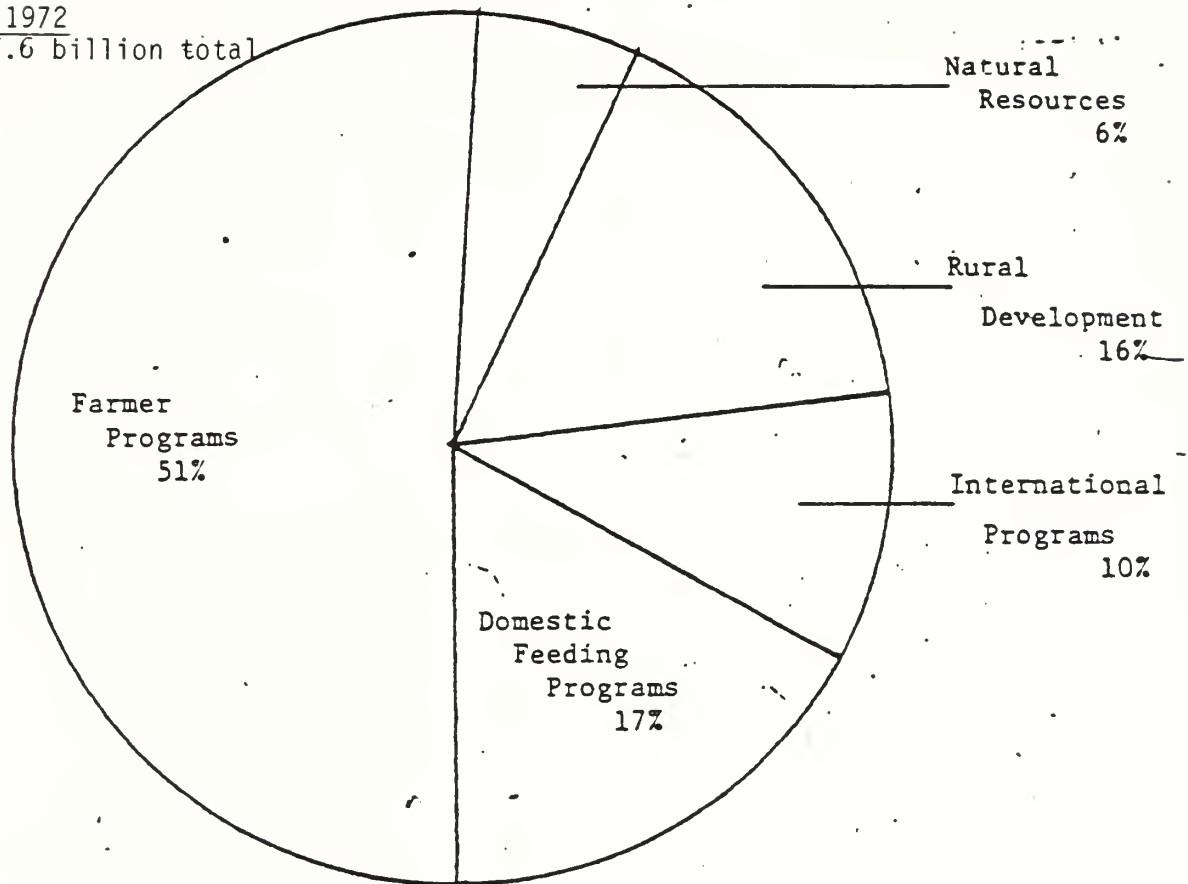
The Senate and House Agriculture Committees have completed action on their respective Farm Bills. Floor action in the Senate is scheduled for September, and in the House, floor action is scheduled for the second week in September.

The Administration views the Senate bill as moving in the right direction, especially if some changes are made in certain programs--including modifications in the peanut and sugar programs along with a reduction in some target price levels. However, the House bill, with its costly dairy provisions and high loan rates and target prices, is unacceptable in its present form.

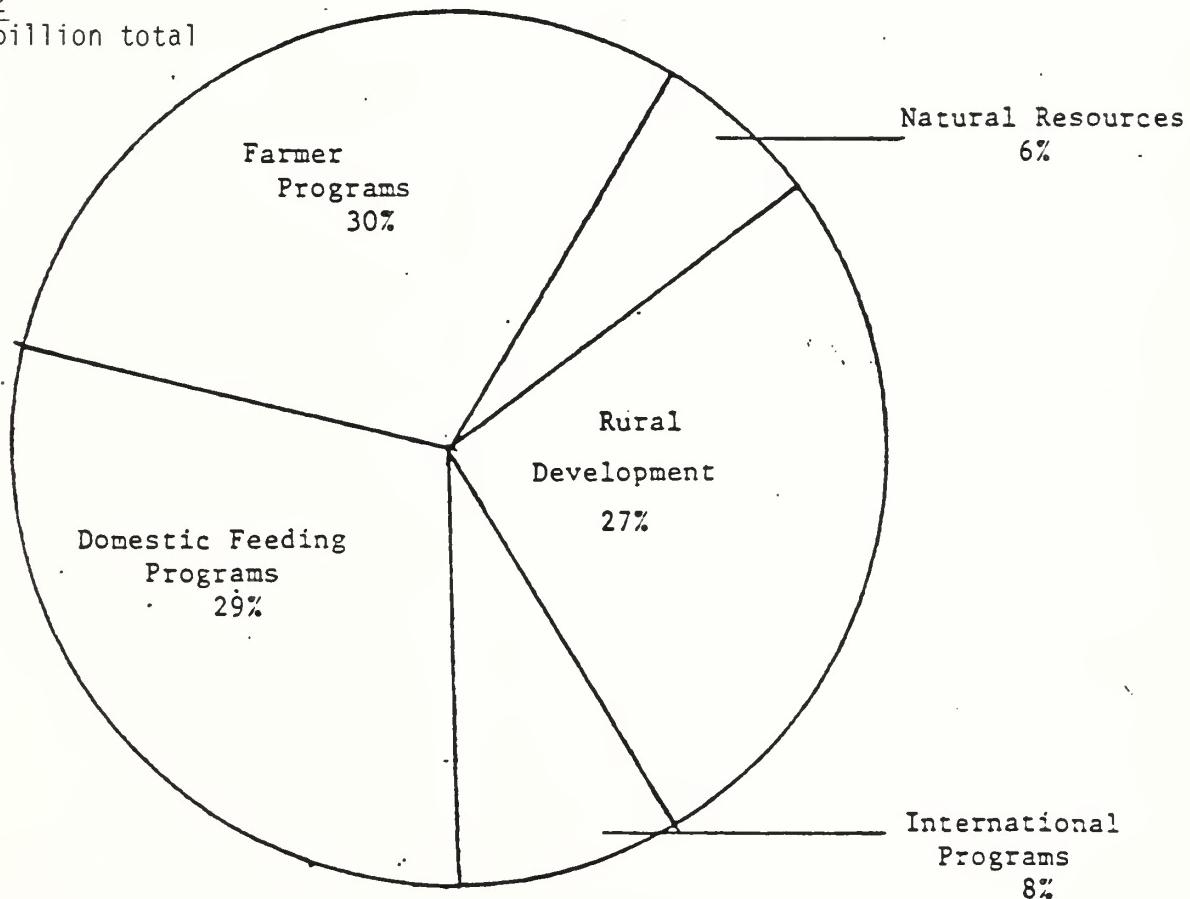
Throughout the rest of the legislative process we will continue to work for a farm program which reflects the President's commitment to reduce Government involvement and regulation in the agricultural sector, while at the same time providing adequate protection for the Nation's most productive economic sector.

V. USDA PROGRAM LEVELS

FY 1972
\$17.6 billion total



FY 1982
\$47.1 billion total



VI. USDA AGENCY INFORMATION

Agency descriptions appear as listed on the Secretary's Policy and Coordination Council chart. The Office of General Counsel (OGC), Office of Inspector General (OIG), Congressional Affairs (CA), Intergovernmental Affairs (IA), Public Information (PI), National Agriculture Library (NAL), and Office of Budget and Program Analysis (OBPA) are not included. The main function of these groups is to support the other agencies, as well as, carry out the missions of the Secretary's office.

Secretary's Policy and Coordination Council

In a memo dated July 22, 1981, Secretary of Agriculture John Block established the Secretary's Policy and Coordination Council. The stated purposes of the Council are: To have good communication between agencies, a common direction in dealing with issues, and an effective means of developing policy.

The Council is chaired by the Secretary, and it's membership consists of the Deputy Secretary, Under and Assistant Secretaries, Director of Science and Education, General Counsel, and Inspector General. Issues are presented to the Council for decision-making by committees chaired by the Under and Assistant Secretaries, Director of Science and Education, General Counsel, and Inspector General. Where appropriate, issues which involve other federal departments are raised to the Cabinet Council level for decision-making.

Each committee chair is responsible for determining issues to be addressed by his/her committee and establishing working groups to develop recommendations for policy in dealing with those issues. Issues may surface at any level and be referred to the appropriate committee chair for action. Recommendations are made through appropriate agency channels.

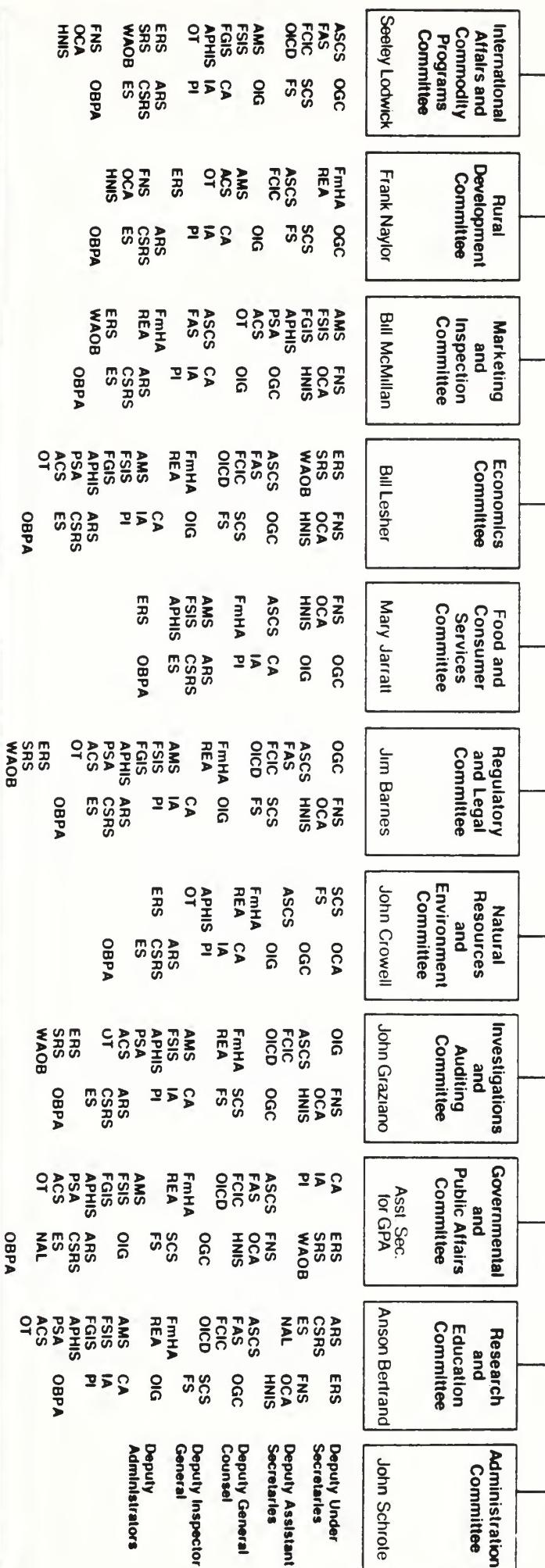
This process is consistent with the Cabinet Council form of government. The Policy and Coordination Council meets informally each morning (Monday through Friday) and formally as needed. Policy recommendations are brought from the working groups to the full committees, and if necessary. to the Council for decision.

Working groups may also be established by the Committee Chairmen for the purpose of ongoing interagency coordination.

It is not intended that the Policy and Coordination Council structure subsume the functions of legislatively required interdepartmental coordinating groups that are already functioning. Nor is it intended that the Committee structure replace USDA interagency coordinating groups mandated by legislation or those established by two or more agency heads to meet unique and continuing program needs affecting only the member agencies. Where opportunity exists, however, the Council structure may be used to support the operation of such coordinating groups.

Each committee chair has appointed an Executive Secretary responsible for implementing the process. It is a flexible structure, one that has been adapted to the needs of the various committee chairmen. Yet it is formalized sufficiently to allow for good interagency coordination at all levels and provide for effective, organized development of policy.

**SECRETARY'S POLICY
AND
COORDINATION COUNCIL**



Key

ASCS	OGC	FmHA	OGC	AMS	FNS	OCA	OIG	FNS	OGC	SCS	OCA	OIG	CA	ERS	AR	ERS	Research and Education Committee
FAS		REA		FNS	OCA	WAOB		SRS	OCA	HNIS	OIG		IA	CSRS	FSIS	ES	Deputy Under Secretary
FCIC		SCS		FGIS				ASCS	CA	ASC			PI	WAOB	CSRS	NAL	Deputy Assistant Secretary
OICD	FS	ASCS	FS	APHIS				OICD	IA	OICD	OGC				FNS		Deputy General Counsel
AMS	OIG	FCIC	OIG	AMS	FAS	SCS	OIG	FCIC	SCS	ASCS	FNS				ASCS		Deputy Inspector General
FSIS		OIG		OT	OIG			OICD	FS	FCIC	FAS				FCIC		Deputy Administrators
FGIS	CA	OT		OT	OIG			OICD	FS	OICD	SCS				FCIC		
APHIS	IA	OT		IA	OT			OICD	PI	OICD	OIG				PI		
OT	PI	PI		PI	PI			OICD	CA	OICD	OGC				PI		
ERS	ARS	ERS		ARS	FmHA	PI		ERS	ARS	AMS	CA	CA	OT	OT	OT	OT	
SRS	CSRS	ERS		CSRS	RE	PI		ERS	OBPA	AMS	IA	IA	OT	OT	OT	OT	
WAOB	ES	HNIS		ES	ARS	CSRS		ERS	OBPA	FGIS	PI	PI	OT	OT	OT	OT	
FNS	OBPA	OBPA		OBPA	FGIS	APHIS		ERS	OBPA	FGIS	APHIS	PI	OT	OT	OT	OT	
OCA				ES	APHIS	ARS		ERS	OBPA	FGIS	ARS	PI	OT	OT	OT	OT	
HNIS				ES	ACS	CSRS		ERS	OBPA	FGIS	ARS	PI	OT	OT	OT	OT	
OT				OT	OT	OBPA		ERS	OBPA	FGIS	ARS	PI	OT	OT	OT	OT	
					WAOB			ERS	OBPA	FGIS	ARS	PI	OT	OT	OT	OT	

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

The Agricultural Stabilization and Conservation Service is responsible for:

- (1) Commodity support operations through
 - (a) loans to farmers;
 - (b) direct purchases of commodities from farmers and processors;
 - (c) production payments for wool and mohair; and
 - (d) payments, as required, to producers of wheat, feed grains, upland cotton, and rice, if open market prices fall below a support "target price" fixed by law for each commodity.
- (2) Administration of a farmer-owned Grain Reserve Program.
- (3) Production adjustment to balance supply and demand for specified commodities, through cropland set-aside and other acreage diversion as determined by the Secretary of Agriculture, and acreage allotments and marketing quotas, when applicable.
- (4) Management of Commodity Credit Corporation (CCC) inventories when acquired under commodity programs--through sales, donations, storage, and related processing and shipping arrangements.
- (5) Disaster activities to augment feed supplies for farmers and ranchers in areas where natural disasters have reduced feed, and to provide emergency conservation assistance in restoring farmland seriously damaged by flood, drought, or other natural disaster; and emergency preparedness activities to assist in planning for civil defense.
- (6) Resource conservation and environmental protection assistance through cost-sharing with farmers and ranchers.
- (7) Providing acreage determinations, certifications of individual crop production, and other services in support of the Federal Crop Insurance Corporation's All-Risk Crop Insurance Program.

All programs administered by ASCS that deal directly with farmers are carried out through state, county, and community committees.

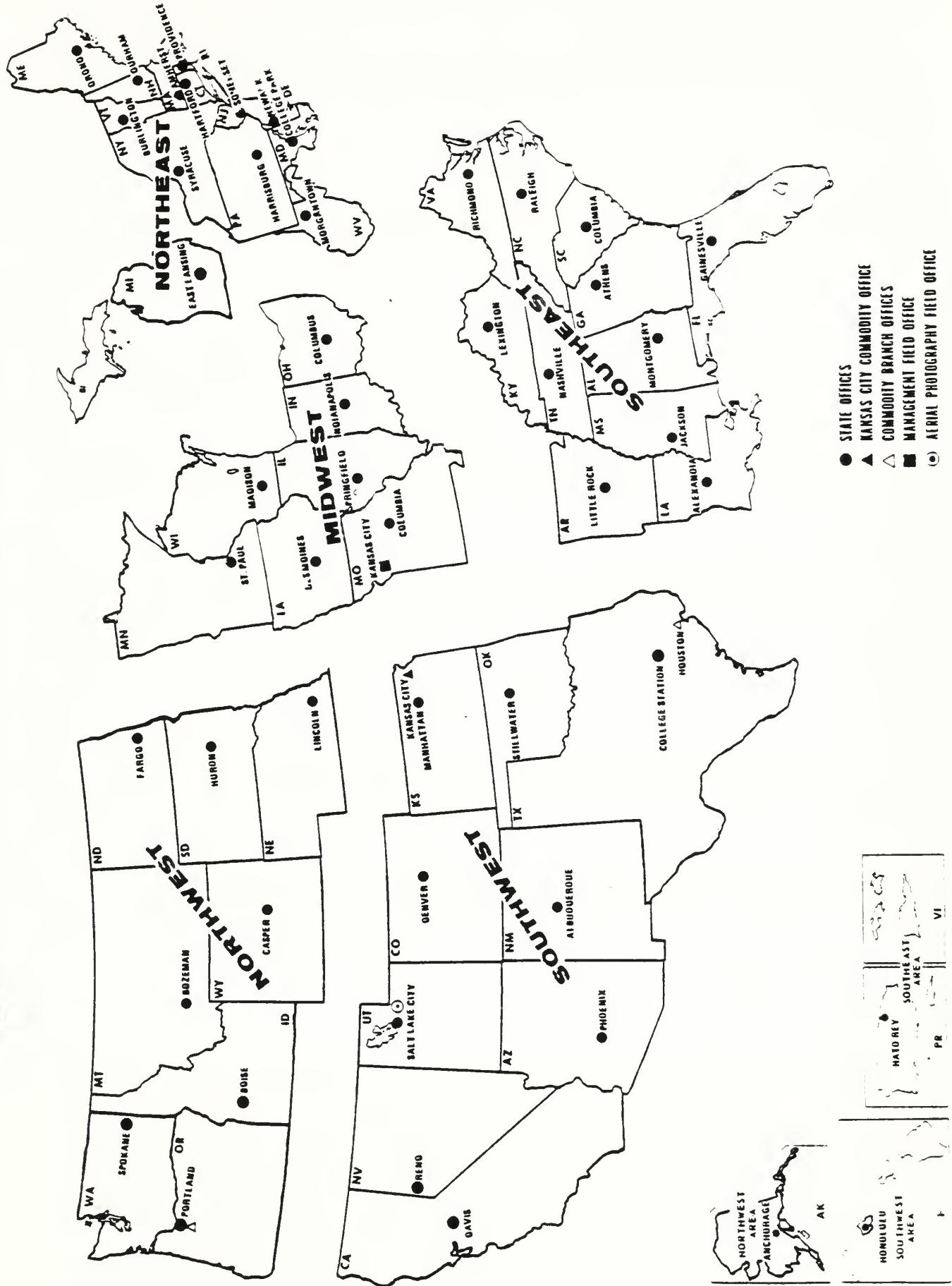
ASCS provides personnel and facilities for various functions of the Commodity Credit Corporation, the governmental unit charged with financing agricultural price support, acreage set-aside, and related activities, including commodity acquisition, handling, storage, and disposal operations.

ASCS maintains a headquarters office in Washington, D.C., 50 State offices, a Caribbean area office in Puerto Rico which also serves the Virgin Islands, 2,743 headquarters county offices and 100 county suboffices (1978), the Kansas City (MO) Commodity office with three branch offices (Houston; Portland, OR; and Minneapolis), the Management Field office in Kansas City, and the Aerial Photography Field office in Salt Lake City, UT.

About 95 percent of ASCS employees are assigned to offices outside of Washington, D.C.

The agency is headed by an Administrator, an Associate Administrator, and three Deputy Administrators. Each of the Deputy Administrators has responsibility in a specified area of activity: state and county operations and commodity programs, commodity office operations and related activities, and management.

FIELD OFFICES OF AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE



FOREIGN AGRICULTURAL SERVICE

The primary mission of the Foreign Agricultural Service (FAS) is to help American farmers and traders increase export sales. FAS is organized to provide three basic services to support export growth. They are (1) to provide global agricultural and trade information; (2) to get and maintain market access for U.S. products in foreign markets; and (3) to assist in export market development.

Global Information--Information is received from U.S. agricultural attaches and counselors overseas, who report on agricultural supply, demand, and trade in more than 100 countries. This is supplemented by data from remote sensing technology (LANDSAT), and from meteorological and trade sources. The information is collected in Washington, where it is analyzed for public dissemination.

Market Access--FAS coordinates and directs the Department's activities in international agreements and negotiations, identifies trade barriers and negotiates to remove them, coordinating with other government agencies.

Market Development--The primary effort is a continuing, comprehensive program conducted with 50 nonprofit agricultural trade cooperator groups organized along commodity lines to promote exports. The cooperators execute projects in foreign countries under FAS supervision to expand the market for their specific commodities. Funding is shared.

Other activities include trade shows, sales teams, in-store promotions, an Export Incentive Program with private companies to promote brand name foods overseas, and a Trade Opportunity Referral Service (TORS), linking foreign buyers with U.S. suppliers via computer. In addition, FAS has opened eight U.S. agricultural trade offices throughout the world to provide one-stop service for U.S. exporters and foreign importers. Three more are scheduled to be opened this year.

FAS also administers the Commodity Credit Corporation (CCC) export credit guarantee program, and the P.L. 480 program, which provides low-interest long-term credit to recipients of U.S. farm commodities and outright donations in emergencies.

Import Control--FAS also has certain responsibilities with respect to imports of agricultural products. These are (1) to prepare estimates for the Secretary of imports of meat (mostly beef) covered by the Meat Import Act of 1979, and (2) to provide analytical support and recommendations for the Administration of Section 22 of the Agricultural Adjustment Act of 1933. This provides for the restriction of imports that would jeopardize price support programs of USDA.

FEDERAL CROP INSURANCE CORPORATION

The Federal Crop Insurance Corporation (FCIC) provides farmers with self-help, all-risk insurance that repays crop production costs when crops have been severely damaged by bad weather, insects, disease, and unavoidable natural causes. This keeps the rural economy going in those years when drought or another natural disaster cuts crop yields and leaves farmers with a short crop or no crop to sell. FCIC protection is available in more than one-third of the nation's farm counties. As farming becomes more of a credit operation, Federal Crop Insurance policies are becoming increasingly important as collateral for crop production loans.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

OICD was created by the Secretary in 1978 by bringing together several units within USDA which had been involved in international programs, some as early as 1954. The agency's major responsibilities include planning, coordination and evaluation of USDA policies and programs related to alleviating hunger and malnutrition. This subsequently was expanded to include responsibility for international scientific and technological exchange and development programs and research related to agriculture.

TECHNICAL ASSISTANCE

In 1980, OICD entered into 125 agreements with AID, international organizations, and governments of other nations. Among its activities, technical assistance continued its high level efforts in Saudi Arabia on soil classification, mapping and strengthening that country's Ministry of Agriculture and Water Capability in long range agricultural planning; implemented an agricultural production program in Portugal; worked with other USDA agencies to control and eradicate African Swine Fever in the Dominican Republic; developed and put into place a crop and livestock forecasting system in Botswana; and initiated a comprehensive marketing program in Jamaica.

INTERNATIONAL TRAINING

Training programs for over 2,500 agricultural policymakers and foreign administrators were carried out through some 50 courses offered in the United States and in 16 foreign countries. The training process has helped to strengthen a number of international organizations and improved relations with developing and middle income nations.

SCIENTIFIC & TECHNICAL EXCHANGE

Scientific and technical exchanges were carried out under agreements with 30 countries. Benefits include: exchanges of new germplasm for breeding soybeans, medicinal and other plants in the continuing effort to improve productivity and resistance to disease; collection of parasites to expand biological control measures against targeted insect pests and weeds; collection of ground truth data for remote sensing programs; and joint efforts to develop new crops for strategic purposes.

INTERNATIONAL RESEARCH

International projects ranged from research to control insect pests and plant diseases to developing plants that generate their own fertilizer. In 1981, the Division strengthened joint research programs with Poland and Yugoslavia; recommended a package of 40 cooperative scientific research proposals under the Binational Agricultural Research and Development Fund (BARD) between the U.S. and Israel for implementation in FY 1982; and is participating with the State Department in developing improved management of agricultural research programs under the projected renewal of the Treaty of Friendship with Spain.

INTERNATIONAL ORGANIZATIONS

Leadership is provided by OICD in behalf of USDA in making known U.S. views on food and agricultural issues and coordinating U.S. food assistance efforts with those of other nations and international organizations.

INTERAGENCY RELATIONS

Relations with land grant and other colleges and universities are being strengthened through added emphasis on joint planning and involvement in international programs. Greater involvement of the International Science and Education Council (ISEC) is being implemented in the expanded Bilateral Scientific Exchange Program being carried out with China; and the Division is involved in the effort to reestablish scientific and technological linkages between U.S. universities and their former counterparts in China and other nations.

AGRIBUSINESS DEVELOPMENT

One of the most recent, and potentially most significant activities in which OICD is involved is in "opening the door" for investment by private U.S. agribusiness in developing and middle income nations. For the first time, USDA and the private U.S. agribusiness sector have combined resources to facilitate and support the development of, and investment in agriculture in Nigeria, under a Memorandum of Understanding (MOU) signed by the United States and Nigeria in 1980. The pilot program which brings together the private U.S. agribusiness sector with that of Nigeria on a joint-venture basis may serve as a model for other nations.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration (FmHA) provides vital financial assistance to rural America through multibillion-dollar loan and grant programs. The agency approaches rural development through five major avenues: (1) encouraging and supporting family farm ownership and operation to provide an economic and social base for rural society; (2) providing modest, but adequate, modern individual homes and rental apartments; (3) installing needed community facilities, community centers, streets, health services, and other needed amenities; (4) providing economic support to farmers affected by disaster; and (5) fostering economic development with loans for business and industrial enterprise.



RURAL ELECTRIFICATION ADMINISTRATION

An agency in the U.S. Department of Agriculture which finances electric and telephone facilities in rural areas.

The agency was established by Executive Order of the President as an emergency relief program on May 11, 1935. Statutory authority was provided by the Rural Electrification Act of 1936. The Act established REA as a lending agency with responsibility for developing a program for rural electrification. On October 28, 1949, an amendment to the Rural Electrification Act authorized REA to make loans to improve and extend telephone service in rural areas. In 1971, the Act was amended to authorize the establishment of a Rural Telephone Bank to provide supplemental financing for telephone systems. And in 1973, authority to guarantee loans made by non-REA lenders was authorized by an amendment to the Act. This amendment also increased the standard interest rate for REA loans to 5 percent, but continued the 2 percent interest rate for borrowers meeting special statutory criteria.

TYPES OF FINANCING

REA has made long-term, interest-bearing loans, and guaranteed loans made by others, to 1,000 electric and nearly 1,000 telephone systems located in the rural areas of the United States. These borrowers serve about 9.5 million electric consumers and 4.7 million telephone subscribers located in 47 states, the Virgin Islands, Guam, and Puerto Rico. REA loans to finance electric and telephone facilities bear interest at either a standard rate of 5 percent or a special rate of 2 percent interest in accordance with criteria set forth in the Act. REA also makes loans in conjunction with other lenders; and guarantees the repayment of loans from non-REA financing sources.

ELECTRIC LOANS

REA electric loans are made to nonprofit and cooperative associations, public bodies, and other electric utilities. These loans finance the construction and operation of distribution lines or systems, generating plants and transmission lines to provide initial and continued adequate electric service to persons in rural areas. About 99 percent of the REA-financed electric systems are cooperatives, owned and controlled by their consumer-members.

TELEPHONE LOANS

REA telephone loans may be made to telephone companies, to public bodies, and to cooperative nonprofit, limited dividend or mutual associations. In authorizing the telephone loan program, Congress directed that it be conducted to "assure the availability of adequate telephone service to the widest practicable number of rural users of such service." About two-thirds of the telephone systems financed by REA are commercial companies and about one-third are subscriber-owned cooperatives.

LOAN GUARANTEES

REA also guarantees loans to facilitate the obtaining of financing for large-scale electric and telephone facilities from non-REA sources. Guarantees are considered if such loans could have been made by REA under the Act, and may be made concurrently with an REA loan. Guaranteed loans bear interest at a rate agreed upon by the borrower and the lender, and may be obtained from any legally organized lending agency qualified to make, hold, and service the loan.

RURAL TELEPHONE BANK

The Rural Telephone Bank, an agency of the United States, was established in 1971 to provide supplemental financing for telephone systems. The bank's management is vested in a Governor (the REA Administrator) and a Board of Directors, including six who are elected by the bank's stockholders. Bank loans are being made for the same purposes as loans made by REA, but bear interest at a rate consistent with the bank's cost of money. In addition, loans may be made to purchase stock in the bank required as a condition of obtaining a loan. The bank is operated by REA and other U.S. Department of Agriculture employees, at no cost to the bank.

INTEREST RATES

Most REA loans bear interest at the standard rate of 5 percent. A special 2 percent rate is available for electric and telephone borrowers which have experienced extenuating circumstances or extreme hardship, or which meet criteria set forth in the law. These include electric systems with an average consumer density of two or fewer per mile or an adjusted plant revenue ratio of 9.0 or more, and telephone systems with an average subscriber density of three or fewer per mile. Plant revenue ratio is the total of distribution and general plant divided by the annual gross revenue after excluding the cost of power.

REPAYMENTS

Loans are repaid by the systems REA finances over a 35-year period. Success of this program may be demonstrated in the fact that these borrowers repay their government loans promptly, often ahead of schedule. Of the \$42.1 billion loaned and guaranteed through December 31, 1980, less than 1/1,000th of one percent has been lost through foreclosures or failure.

The agency does not construct, own or operate any electric or telephone facilities.

GROWTH IN RURAL ELECTRIFICATION AND RURAL TELEPHONE

In the 53 year period from 1882, when the first central generating system went into service, to 1935, when REA was created, only 10.9 percent of all farms in the United States had obtained electric service. Today, 98.7 percent of the 2.3 million U.S. farms are electrified and REA-financed systems serve about half of these farms.



According to the 1950 Census, only 38.2 percent of the Nation's farms had telephone service, and a considerable portion of this service was inadequate and of low quality. Establishment of the REA telephone program provided a needed source of credit and gave fresh hope to people in rural areas for full telephone coverage with high quality service. An estimated 94 percent of the Nation's farms now have telephone service and about 99 percent of the REA-financed service is dial.

COMMUNITY DEVELOPMENT

Since mid-1961, REA-financed systems helped to establish or expand more than 9,000 community and industrial facilities in rural areas, creating more than 500,000 new jobs.

AGRICULTURAL MARKETING SERVICE

The Agricultural Marketing Service (AMS) helps the private marketing system move food and other farm products from producer to consumer quickly and efficiently, with fairness to all.

AMS establishes standards for grades indicating the quality of cotton, tobacco, spirits of turpentine and rosin, feeder cattle and pigs, meat, poultry, eggs, dairy products, and fresh, frozen, canned, and dried fruits and vegetables. It also provides grading services for most of these commodities. In a related service, AMS checks food purchases to make sure they meet the contract specifications agreed to by individual firms.

The Agency also administers marketing orders for fruits, vegetables, and milk. Basic purpose of these orders is to provide the orderly marketing of commodities and to assure a flow of adequate supplies to market.

AMS also purchases food for distribution through programs of the Food and Nutrition Service.

AMS also collects market news daily on various kinds and qualities of agricultural products, including their prices and movement in major markets. The agency helps to strengthen farm income and expand markets through programs that encourage consumption of food in temporary overabundance.

It also assists various segments of industry by administering research and information programs for cotton, eggs, wheat, potatoes, and wool. A market research and development program helps cities develop new market facilities.

AMS also promotes fair play in marketing through administration of the Perishable Agricultural Commodities Act, the U.S. Warehouse Act, the Federal Seed Act, the Plant Variety Protection Act, the Agricultural Fair Practices Act, and the Export Fruit Act.

FOOD SAFETY AND INSPECTION SERVICE

The Food Safety and Inspection Service (FSIS) was established in June 1981.

FSIS administers the meat and poultry inspection program which assures consumers that meat and poultry sold in the United States or shipped abroad is safe, wholesome, and truthfully labeled.

Major divisions of the agency are Technical Services, Operations, and Science. FSIS coordinates its activities with State Departments of Agriculture; the Food and Drug Administration of the U.S. Department of Health and Human Services; and the Environmental Protection Agency.

Under the Federal Meat Inspection Act and the Poultry Products Inspection Act, FSIS inspects all meat and poultry shipped in interstate and foreign commerce for use as human food. Included are processed products such as sausages, frozen dinners, canned meat, and soups made with meat and poultry, as well as raw meat and poultry. Some states conduct their own meat and poultry inspection programs, and these are required to be "at least equal to" the Federal Inspection program. Meat and poultry inspected in a state program may be sold only within the state.

FSIS provides continuous inspection at about 7,050 plants in the United States and monitors inspection in foreign plants that export meat and poultry to the United States.

Inspection starts with approval of plans for a slaughtering or processing plant to make sure the facilities, equipment, and procedures are adequate to provide for safe and sanitary operations. All livestock and poultry are inspected before slaughter, and inspection continues throughout the slaughtering process and at each step in processing, handling, packaging, and labeling. FSIS has taken steps to modernize inspection procedures so that inspectors work more efficiently and plants can achieve greater productivity. New inspection procedures have been implemented for chickens and will soon be implemented for swine inspection. Tests are underway on improved inspection methods for cattle and turkeys. The Voluntary Total Quality Control Inspection program increases the efficiency and effectiveness of inspectors in processing plants.

FSIS operates the National Staff Laboratory in Beltsville, MD, and three multidisciplinary field laboratories located in Athens, GA; St. Louis, MO; and San Francisco, CA.

The agency conducts the National Residue Monitoring Program to control unsafe drug and chemical residues in meat and poultry.

In the area of product safety, FSIS evaluates additives and compounds approved by the Food and Drug Administration to assure they can safely be used in meat and poultry products. FSIS staff also evaluate the safety of packaging materials and containers.

FEDERAL GRAIN INSPECTION SERVICE

The Federal Grain Inspection Service (FGIS) establishes official U.S. standards for grain and administers a nationwide system of official grain inspection to certify the grades. FGIS also regulates the weighing of all grain entering or leaving any export facility in the United States. All substantial exporters of U.S. grain are required to register with FGIS and provide agency officials with information about company ownership, management, control, and locations.

The U.S. Grain Standards Act of 1976, under which FGIS was established, requires that all U.S. grain destined for export, with some exceptions, undergo inspection as it is loaded aboard ships. Export grain is inspected by FGIS or by State Departments of Agriculture under authority by FGIS. Domestic grain marketed at inland locations is inspected under supervision by State Departments of Agriculture and private firms.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

APHIS exists to protect and maintain the health and well-being of plants and animals in the United States. The primary responsibilities of the agency are:

- * Enforcement of quarantines and carrying out of port inspection responsibilities designed to prevent entry of foreign animal and plant pests and diseases.
- * Eradicating outbreaks of animal and plant pests and diseases of economic and/or human health significance.
- * Certifying that all biologics licensed for use on animals are safe and effective.
- * Enforcing federal laws requiring humane treatment of animals involved in research, exhibitions, and the wholesale pet trade.

PACKERS AND STOCKYARDS ADMINISTRATION

The Packers and Stockyards Administration is responsible for carrying out the provisions of the Packers and Stockyards Act (P&S Act). The P&S Act is an antitrust, trade practice, and financial protection law. Its principal purpose is to maintain effective competition and fair trade practices in livestock, meat, and poultry marketing so as to bring to farmers and ranchers the true market value of their livestock and poultry. Members of the livestock, poultry, and meat industries are also protected against unfair or monopolistic practices of competitors. The P&S Act also protects consumers against unfair business practices in marketing of meats and poultry and against restrictions of competition which could unduly raise meat and poultry prices.

The provisions of the P&S Act are carried out by investigations of complaints and violations of the provisions of the Act with emphasis on detecting instances of commercial bribery, fraud in livestock marketing and false weighing; requiring adequate bond coverage for commission firms, dealers and packers; and surveillance of marketing methods at public markets and in geographical market areas of the country.

The agency is also responsible for administering the Truth in Lending Act, the Fair Credit Billing Act, and the Equal Credit Opportunity Act with respect to the firms subject to the P&S Act.

AGRICULTURAL COOPERATIVE SERVICE

1. Cooperative Research

Research is conducted to acquire and maintain the base of information necessary for Agricultural Cooperative Service to give farmers relevant and expert assistance pertaining to their cooperatives. Studies of functional cooperative aspects concentrate on their financial, structural, managerial, policy, member, legal, social, and economic activities.

2. Technical Assistance

Technical assistance is provided in response to specific problems. Requests may come from a few farmers directly wanting to organize a cooperative, or from farmers elected directors of a federation of cooperatives composed of hundreds or thousands of farmers desiring to improve operations. Help is given on business organization, operating efficiency, and member control. Work can involve determining the economic feasibility of new facilities or adding new products or services. Studies cover the full range of decision-making found in a cooperative business enterprise.

3. Cooperative Development

The Agency provides specialized assistance to farmers desiring to form new cooperatives. On request from farmer groups, feasibility studies are conducted for potential cooperative operations and give advice on implementing business plans. Field offices in Augusta, ME; New Bern, NC; London, KY; Pine Bluff, AR; and Salinas, CA, help farmers identify needed cooperative services and provide continuing assistance to new cooperatives.

4. History and Statistics

Cooperative statistics are collected to detect growth trends and changes in structure and operations. Data help identify and support research and technical assistance activities. This information is used extensively by legislative and executive branches of government in formulating agricultural and cooperative related policy.

5. Education and Information

Agricultural Cooperative Service has a distinct mission in education and information. We are assigned the responsibility by the Cooperative Marketing Act of 1926 "to promote the knowledge of cooperative principles and practices and to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others."

We maintain a central storehouse of information about farmer cooperatives in the United States--made available through more than 200 research reports and educational publications. Some of these cover basic principles of cooperation and key organizational and management elements required for successful cooperative effort. Others report the findings of research and technical assistance studies. A monthly magazine, Farmer Cooperatives, reports significant achievement by cooperatives, the most advanced thinking of cooperative leaders, and highlights of agency research, technical assistance, and educational activities.

OFFICE OF TRANSPORTATION

The Office of Transportation is a focal point for all USDA transportation matters. It develops agricultural and rural development transportation policies and programs, and is responsible for the following broad program functions:

- Represents interests of agriculture before regulatory agencies so that efficient and economical transportation services and facilities are available domestically and internationally.
- Informs Federal and State decisionmakers involved in regulatory, policy, and legislative matters of agricultural and rural community needs.
- Represents USDA in interagency sessions on transportation matters.
- Provides technical assistance to farmers, shippers, carriers, and others about specific transportation needs of the agricultural community.
- Identifies barriers and estimates adverse impacts on transport in agricultural areas.
- Conducts an economic analysis and technological research and development program in agricultural areas.

Implementation of the program is accomplished through OT being organized along functional lines in which the Office of the Director heads up the organization, while two line-divisions, Transportation Services Division and the Research and Economic Analysis Division, report to the Office of the Director.

ECONOMIC RESEARCH SERVICE

The Economic Research Service (ERS) of the U.S. Department of Agriculture provides objective and timely economic and statistical information for farmers, consumers, rural residents, government policymakers, and managers of agribusinesses.

Agricultural economists and researchers study and analyze the production and marketing of major commodities and make forecasts of supply, demand, and use of specific crops, dairy and poultry products, livestock, and other related items. From these forecasts, they also predict what will happen to farm income and food consumption and prices. Performance of the agricultural industry, including the production, processing, and marketing sectors, is measured on a regular basis.

Analysts gather and publish economic information for the producing and consuming public and for those people and organizations formulating food and fiber policies.

Research on the use, conservation, development, and control of natural resources as they may affect economic growth is also analyzed. Research may focus on the impact of environmental restrictions on food production, or on the use and availability of land and water for agriculture.

Economists assess foreign developments and agricultural policies to determine the impact on U.S. trade. They also examine rural populations, employment, housing trends, and economic adjustment problems to help identify and evaluate alternative public and private solutions.

STATISTICAL REPORTING SERVICE

The Statistical Reporting Service (SRS) is responsible for providing the official National and State estimates on agriculture.

Production and marketing data are collected, summarized, analyzed, and published for a wide range of items including: number of farms and land in farms, acreage, yield, production, stocks, value and utilization of grains, hay, oilseeds, cotton, tobacco, fruits, vegetables and specialty crops; inventories and production of hogs, cattle, sheep and wool, mink, bees and honey, trout, catfish, poultry, eggs, and dairy products; prices received by farmers for products, prices paid by commodities and services, and related indexes; cold storage supplies, and related areas of the agricultural economy.

Estimates for about 150 crops and livestock items are published in about 500 Federal and 9,000 State-Federal reports each year. All information is made available to the public and news media at scheduled release times.

The crop and livestock estimating program is conducted through 44 State offices servicing the 50 States. Most of these field offices are operated as joint State-Federal services. The cooperative arrangements with the state agencies provide much additional state and county data to supplement the information produced with Federal resources.

Thousands of farmers, processors, merchants, and others voluntarily respond regularly to surveys about crop, livestock, and other agricultural activities. These reports are supplemented by field observations, objective yield counts and measurements, and other data to provide reliable information for use by the public.

The SRS also conducts research to improve the statistical methods and techniques used to produce agricultural statistics. This research is done in support of the SRS long-range program for improvement of the accuracy of crop and livestock estimates at a minimum cost, and is directed toward better sampling, yield forecasting, and survey techniques.

Research under the AGRISTARS program is continuing primarily to improve the accuracy of domestic and foreign crop acreage and land cover estimates, development of an early warning and crop condition assessment capability, and improvement of crop yield estimating programs.

Additionally, the SRS has the responsibility to review, coordinate, and monitor data gathering surveys conducted by USDA.

The World Board's commitment to inform the public comes into full view after data are collected and reviewed. The Board annually clears and approves about 150 publications from the Economic Research Service and the Foreign Agricultural Service designed to provide users with the best, up-to-date information.

In addition, the Board participates directly in the publication of three major reports: the monthly World Crop Production and World Agricultural Supply and Demand Estimates, and the Weekly Weather and Crop Bulletin, produced by the Joint Agricultural Weather Facility. Slated to be added to the list are a World and U.S. Livestock Inventory and a U.S. Animal Products Supply and Use Estimates report.

Key reports such as these are prepared by interagency working groups in secured, "lock-up" conditions. From early morning when the analysts enter the secured area, there is absolutely no communication beyond the locked doors until the report is released at 3 p.m., Eastern Time, after the commodity markets close. This tight security prevents premature access to the new data.

Each fall, the Board coordinates the Department's annual Agricultural Outlook Conference. The Conference brings academicians, farmers, and representatives from the whole spectrum of agri-business together for several days to discuss the economic prospects for U.S. and world agriculture.

The World Board's coordination and consolidation effort does not stop within USDA. The Board shares intelligence with many other federal departments and agencies, particularly the Commodity Futures Trading Commission, the Departments of State, Treasury, and Commerce, the Office of Management and Budget, the White House Council of Economic Advisors, and various information-gathering arms of government with foreign governments through their Washington embassies, and with several international organizations, including the United Nations' Food and Agriculture Organization.

THE WORLD AGRICULTURAL OUTLOOK BOARD

Among the U.S. Department of Agriculture's many agencies is a small organization with a mission which spans the globe--the World Agricultural Outlook Board.

The World Board was created in 1977 to serve as the focal point for the Nation's economic intelligence relative to the outlook for domestic and international food and agriculture. Prior to 1977, responsibility for USDA's food and fiber outlook information system was fragmented among several agencies, raising doubt about the system's adequacy and effectiveness. While the agencies' missions were unchanged, the World Board was created to coordinate and assure the accuracy, timeliness and objectivity of USDA's agricultural outlook and situation analysis. The Board not only directs the compilation and review of critical economic intelligence data, it also makes sure the essential information quickly reaches policymakers and the public, especially the U.S. farmer.

The Board interacts with many resources beyond its own relatively small staff of about 25. For global information, within USDA the Board relies on the Foreign Agricultural Service for attache reports and analysis of foreign commodity developments, the Economic Research Service for domestic and foreign regional assessments, and the interagency commodity estimates committees for detailed commodity supply and utilization analyses. In addition to the Foreign Agricultural Service and the Economic Research Service, these committees include representatives of the Agricultural Stabilization and Conservation Service and the Agricultural Marketing Service. Members formulate official estimates and projections under the direction of the World Board which chairs each of the committees.

Within the Board itself, economists, commodity analysts, agricultural meteorologists, data processing specialists, a remote sensing coordinator, and several other related professionals concentrate their efforts on the outlook for major grains, cotton and fibers, oilseeds, livestock and poultry. In the development of agricultural outlook, weather continues to be the most significant short-term variable underlying production and prices.

To best coordinate collection and analysis of meteorological and climatological data, a Joint Agricultural Weather Facility is co-operated by the World Board and the National Oceanic and Atmospheric Administration of the U.S. Department of Commerce. The facility, created in 1977, compiles data from nearly 8,000 global weather stations, from weather satellites, and from many other sources to help commodity analysts assess the probability impact of weather on food supplies. A major function of the facility is its early-warning system which focuses on weather changes with potential effect on crops and livestock.

FOOD AND NUTRITION SERVICE

The Food and Nutrition Service (FNS) was established August 8, 1969. FNS is responsible for administering the Department's food assistance programs to improve the nutritional status of low-income children and adults.

The agency operates through seven regional offices. The regional offices in turn administer the family and child nutrition programs through the appropriate state agencies in their regions--the agricultural, educational, welfare, or health agencies of state governments. Where states decline to administer certain of the child nutrition programs, FNS regional offices operate them directly. FNS administers the following programs:

1. Food Stamp Program
2. Food Distribution Program
3. Special Supplemental Food Program for Women, Infants and Children
4. Commodity Supplemental Food Program
5. Child Nutrition Programs including:
 - National School Lunch Program
 - School Breakfast Program
 - Child Care Food Program
 - Summer Food Service Program for Children
 - Special Milk Program for Children
6. Nutrition Education and Training Program

HUMAN NUTRITION INFORMATION SERVICE

In general, the Human Nutrition Information Service (HNIS) is responsible for food consumption surveys, nutrition education research, and dissemination of nutrition research findings to professionals and the general public.

More specifically, HNIS is responsible for:

1. the Nationwide Food Consumption Survey,
2. the Nutrient Data Bank,
3. nutrition education research, and
4. the food and nutrition component of AGRICOLA bibliographic data base.

SOIL CONSERVATION SERVICE

The Soil Conservation Service (SCS) develops and carries out a national conservation program through more than 2,950 local conservation districts with 2.3 million cooperating landowners and operators in inventorying and assessing their soil, water, and plant resources and in planning and applying land-use and conservation treatments.

The agency also provides leadership for watershed projects, the Great Plains conservation program, resource conservation and development projects, recreation enterprises, investigations of river basins, and the National Inventory of Soil and Water Conservation Needs.

In addition, SCS administers the Federal part of the National Cooperative Soil Survey, and coordinates snow surveys to help in forecasting water supplies in the Western States. SCS also supports the national agricultural conservation program by offering technical assistance whenever needed.

In recent years, the services of SCS specialists have been used more and more by State, county, and local governments; planning and zoning agencies; and other institutions and organizations in rapidly developing areas to insure proper land and water use and management.

These services take the form of assistance to nonfarm groups in such activities as the provision of municipal and industrial water supplies, highway construction, housing developments, recreation facilities, sanitary landfills, school site developments, and surface mine reclamation.

FOREST SERVICE

The Forest Service has the Federal responsibility for national leadership in forestry. This role includes participation at the national level in setting priorities, establishing policies, and formulating and implementing forestry programs.

In carrying out its national forestry leadership role, the Forest Service undertakes a great variety of activities. The major jobs include:

1. Cooperative Forestry. The Forest Service cooperates with the 50 States, local governments, forest industries, and private landowners to promote good forestry and land management practices on non-Federal forest and range lands. Most of the technical and financial assistance is provided through the State forestry organizations.

2. Management of the National Forests and Grasslands. The Forest Service manages 190 million acres of public lands under the multiple use management concept for the sustained flow of timber, fish, wildlife, water, forage, and outdoor recreation. These lands consist of 154 National Forests, 19 National Grasslands, and 16 Land Utilization Projects located in 44 States, Puerto Rico, and the Virgin Islands. The costs of managing these public lands in FY 1980 was \$2,121,030,000 as compared to the income received of \$1,288,475,000. About 60 percent of the receipts came from the sale of National Forest timber. By law, 25 percent of National Forest receipts are returned to counties for schools and roads.

3. Forestry Research. The Forest Service has the world's largest forestry research organizations with 980 scientists conducting more than 3,000 individual studies. These scientists are located at 80 different laboratories and scientific facilities throughout the country.

4. International Forestry. The Forest Service represents the U.S. Government in most world forestry matters. In cooperation with the Department of State and the Food and Agriculture Organization (FAO) of the United Nations, technical assistance is provided to other countries who need the help of American expertise in solving their forestry problems.

Most of the work of the Forest Service is done at the local level where the forest and the people who depend on them are located. Because of this, the Forest Service is one of the most decentralized agencies in the Federal Government. In total, the Forest Service employs about 36,000 permanent employees plus another 25,000 seasonal employees during the peak summer months. Only about 2-1/2 percent of the permanent workforce is located in the Washington, D.C. area. The Forest Service is a highly professional organization with about 30 percent of the permanent workforce being professionally trained in the fields of forestry, civil engineering, landscape architecture, fish and wildlife biology, soil science, and other natural resource specialities.

AGRICULTURAL RESEARCH SERVICE

The Agriculture Research Service administers a comprehensive and nationally coordinated federal program of basic, applied, and developmental research in

- animal production and protection;
- plant production and protection;
- use and improvement of soil, water, and air;
- human nutrition;
- processing, storage, distribution, food safety, and consumer services.

The research program is applied to a wide range of goals, commodities, natural resources, fields of science, and geographic, climatic, and environmental conditions. It is categorized into some 60 national research programs. Approximately 3,000 ARS scientists are employed at 148 locations in 50 states, Puerto Rico, the Virgin Islands, and in eight foreign countries.

The ARS research program is coordinated with both state and private industry research as well as with the needs of Departmental action agencies.

ARS research falls into the following general categories:

Animal Production and Protection--Research is conducted to

- improve livestock and productivity through improved breeding, feeding, and management practices; and
- develop methods for controlling disease parasites, and insect pests affecting livestock.

Increased emphasis is being placed on research to develop energy technologies to reduce animal agriculture's dependence on fossil fuels, and to expand basic research.

Plant Production and Protection--Research is conducted to

- improve plant productivity through improved varieties of food, feed, fiber, and other plants;
- develop new crop resources; and
- improve crop production practices, including methods to control plant diseases, nematodes, insects, and weeds.

New initiatives focus on research in integrated pest management (IPM), ways to reduce the use of fossil fuels and develop alternative sources of energy, and on tropical and subtropical projects.

Use and Improvement of Soil, Air, and Water--Research is conducted to

- improve management of natural resources, including investigations to improve soil and water management, irrigation, and conservation practices;
- protect natural resources from harmful effects of soil, air, and water pollutants;
- minimize certain agricultural pollution problems; and
- determine the relationship of soil and water factors to plant, animal, and human nutrition.

New initiatives focus on basic research to develop aerospace technologies that can provide early warning on the effects of drought and other weather extremes, and on strengthening studies on the impact of pollution on water resources.

Human Nutrition--ARS conducts research on human nutritional requirements and on the composition and nutritive value of food. There are five human nutrition research centers, each with a different focus. They are as follows:

- the Beltsville Human Nutrition Research Centers, Beltsville, MD, conducting research on human requirements for essential nutrients and on the nutritive value of foods.
- the Grand Forks Human Nutrition Research Center, Grand Forks, ND, investigating human nutrient requirements, with emphasis on trace elements;
- the Children's Nutrition Research Center, Baylor College of Medicine, Houston, TX, concerned with the nutritional needs of pregnant and lactating women, infants and children;
- the Human Nutrition Research Center on Aging, Tufts University, Boston, MA, studying the nutritional needs of the elderly;
- the Western Human Nutrition Research Center, Letterman Army Institute of Research, San Francisco, CA, studying methods for assessing nutritional status and identifying factors, forces, and trends leading to malnutrition.

Processing, Storage, Distribution, Food Safety, and Consumer Services--Research in postharvest science and technology extends and complements the continuum of research beyond that concerned with our soil, water, and air resources and the production and protection of farm crops. Research is conducted to

- develop new and improved foods, feeds, fabrics, and industrial products for domestic and foreign markets; and
- improve processing, transportation, and storage of products.

Research is also conducted on human health and safety, including the safety of food and feed supplies, the control of insect pests affecting people and property; hazards to human life resulting from pesticide residues and other causes; and consumer services.

COOPERATIVE STATE RESEARCH SERVICE

The Cooperative State Research Service administers acts of Congress that authorize federal appropriations for agricultural research by state agricultural experiment stations of the 50 states, Puerto Rico, Guam, the Virgin Islands, and the District of Columbia; approved schools of forestry; the 1890 land grant institutions and Tuskegee Institute; colleges of veterinary medicine; and other eligible institutions. These organizations conduct about 60 percent of the publicly supported agricultural and forestry research for the nation. The formula-funded programs, except for the 1890 colleges, require matching nonfederal funds. On a national basis, the states expend about four dollars of nonfederal funds for each dollar of federal support.

The agency plans and coordinates research between the states and the U.S. Department of Agriculture to encourage and assist in establishing and maintaining cooperation within and among the states and between the states and their federal research partners. The state institutions conduct research on problems to develop a permanent and sustaining agriculture and forestry, and to improve the economic and social welfare of rural and urban families.

Administrative responsibilities of CSRS include activities occurring under the following:

- Payments under the Hatch Act
- Payments to 1890 colleges and Tuskegee Institute
- Cooperative Forestry Research
- Competitive Research Grants
- Special Research Grants
- Funds supporting livestock, fish, and poultry disease research in colleges of veterinary medicine and in agricultural experiment stations.

Payments under the Hatch Act--Funds under the Hatch Act are allocated to agricultural experiment stations of the land grant colleges in the 50 states, District of Columbia, Puerto Rico, Guam, the Virgin Islands, Micronesia, and American Samoa for agricultural research, including investigations and experiments to promote a permanent and efficient agriculture industry and improvement in the rural home and community.

Payments to 1890 Colleges and Tuskegee Institute--Evans-Allen Funds support planning, coordinating, and conducting agricultural research at the 1890 land grant colleges, including Tuskegee Institute. The eligible institutions plan and conduct agricultural research on their own and in cooperation with each other and such agencies, institutions, and individuals as may contribute to the solution of agricultural problems.

3/4/82

Source: ARS Briefings

Cooperative Forestry Research--Funds are allocated to land grant colleges or agricultural experiment stations in the 50 states, Puerto Rico, Guam, and the Virgin Islands, and other state-supported colleges and universities having a forestry school and offering graduate training in the sciences basic to forestry.

Competitive Research Grants-- This grant program was initiated in 1978 to fund basic research in selected high-priority areas related to food production--photosynthesis, nitrogen fixation, genetic engineering, and biological stress--and human nutrition. Capable scientists from the entire U.S. scientific community are encouraged to apply for the grants.

Special Research Grants--Funds support basic and applied research at nonprofit institutions of higher education or nonprofit organizations whose primary purpose is to conduct such research. Areas of research emphasize high-priority problems of regional or national scope of joint concern to the USDA and to the states. Areas now funded include pest management, pesticide impact assessment, soil erosion, food and agricultural policies, soybeans, energy, aquaculture, animal health, and other high-priority animal research.

Animal Health and Disease Research--Funds support livestock, fish, and poultry disease research in colleges of veterinary medicine and in agricultural experiment stations. Distribution is by formula based on the relative importance of livestock and poultry production in the states, and the capacity of eligible institutions to conduct this research. Research on specified national and regional problems of joint USDA-state concern also is conducted as agreed upon between the USDA and certain institutions.

Extension Service

Cooperative Extension, which dates back to 1914, is the largest off-campus information education system in the world. Its resources include support from federal, state, and county governments; about 17,000 professionals, 6,000 program aides, several hundred thousand volunteers, an office in virtually every county in the country, and programs in Puerto Rico, Guam, and the Virgin Islands. New legislation authorizes programs in Micronesia and American Samoa.

Extension is a broadly based system for transferring useful information to people and in turn communicating their needs back to the sources of information. Its wide applicability is further demonstrated by Extension's effective programs in such nontraditional areas as energy and marine resources.

The Extension Service has national leadership responsibility for coordinating and providing administrative, technical, and program assistance to the total Cooperative Extension system. The agency is responsible for:

- Delivering the latest scientific information and knowledge to people through the land grant university system;
- Providing national perspective and leadership in Extension program development, implementation, and evaluation;
- Enhancing two-way communication between USDA, other agencies of the federal government, and state Cooperative Extension Services;
- Encouraging coordination of programs among states, USDA agencies and other departments of government, as well as private organizations, serving as the Department's representative and liaison on matters relating to Cooperative Extension work;
- Providing administrative and program management to assure compliance with federal laws, regulations and policies;
- Providing national leadership in Extension staff training and development.

Extension programs focus on five main areas:

Agriculture
Natural Resources
Home Economics and
Human Nutrition

4-H and Youth
Community and Rural Development

Agriculture--Programs in this area seek to improve crop productivity through optimum combinations of cultural practices; to educate producers about opportunities in aquaculture; to improve efficiency and food safety in commercial food processing; to reduce water pollution by making producers aware of the most effective management practices in pesticide and nutrient applications, irrigation, and use of animal wastes; to conserve energy in agricultural production and buildings and develop alternative energy sources;

and to educate producers about marketing strategies and financial and business management.

Natural Resources--The aim of this program is to improve the quality and quantity of forest, range, and agricultural land resources by helping owners, managers, and users of these lands to better understand the available management opportunities; to improve wood and fiber utilization through more efficient sawing practices, using more material from the forests, and demonstrating the potential of new products; to increase understanding of the need for management and conservation of quality habitats for fish and wildlife; to identify opportunities for outdoor recreation activities in privately owned lands; and to improve the public's understanding of the importance, role, and need to protect the environment while producing economic and social benefits from forests, range, and agricultural lands.

Home Economics and Human Nutrition--Extension's purpose in this area is to increase family and individual ability to expand and manage economic and human resources to cope with inflation and provide financial stability; to decrease energy consumption through more efficient selection and use of housing, weatherization, and maintenance; to assist persons to gain skills and manage stress related to caring for children, changes in family structures, and support for aging members in our society; and to reduce costs of health care by promoting personal application of practices which insure safety and maintain health .

Extension programs in this area also seek to improve nutrition knowledge, attitudes and practices of individuals and families; to assist in making wise food buying decisions within resources available; and to prevent food-borne illness and waste through information leading to improved practices in home food preservation and storage.

4-H and Youth--This program serves to inform rural and urban youth about career opportunities in food and agriculture through educational programs; to educate youth on the role and scope of the American agricultural system; to educate youth on ways to conserve energy; to provide opportunities to develop family and community leadership skills; and to expose young people to good physical, nutritional, and mental health habits.

Community and Rural Development--In this area, Extension's purpose is to provide information and linkages aimed at increasing the decisionmaking capacity of elected officials and local leaders; to develop programs related to small business management for business operators located in rural communities; to assist communities to cope with unemployment and provide community services and facilities; to assess impact of public and private sector influences on economic changes in communities; to support downtown revitalization in rural America; and to assist local units of government in being full partners in rural development efforts.

CURRENT ISSUES

- I. African Swine Fever
- II. Beef Grading
- III. Farm Animal Welfare
- IV. Farm Bill
- V. Farm Credit

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- VI. Farm Income

Farm income situation and outlook

- VII. Food Safety Issues

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I. African Swine Fever

The United States, Mexico, Canada, and Haiti are cooperating in a multi-nation effort to eradicate African swine fever from Haiti. The eradication program will be administered by the International Institute for Cooperation in Agriculture (IICA), a part of the Organization of American States. USDA will provide funding and technical assistance for the eradication effort expected to cost in excess of \$17 million (total) and to take up to two years to complete.

African swine fever is an extremely contagious disease. It affects hogs only and there is neither a vaccine nor a cure for it. The multi-nation effort is designed to prevent spread to other countries in the Western Hemisphere, particularly the Dominican Republic, which shares the island of Hispaniola with Haiti and has just successfully completed an eradication program with U.S. help.

If the disease spread into the United States, cost of eradicating even a "small" outbreak is estimated at more than \$150 million.

II. Changes in Beef Grading Structure Urged

Current Situation

Several segments of the livestock and meat industry have expressed a belief that it is time to revise the beef grade standards, but there is no widespread agreement among various groups as to what the revisions should be. According to some groups, cattle feeders are finding it prohibitively expensive to feed cattle to the Prime and Choice grades, and consumers are looking for ways to get more lean meat for their money.

USDA has analyzed the requests and petitions of the industry groups, along with other pertinent data. A proposal to change the standards is now being reviewed by OMB, along with an analysis of the impact any changes would have on various segments of the industry, and on consumers.

Background

The National Cattlemen's Association (NCA) has submitted a petition asking USDA to change the beef grades along the following lines:

- Revise the Prime grade to include the top third of the Choice grade.
- Revise the Choice grade to include all the Good grade, except those carcasses with less than 0.3 inches of fat thickness or those that have fat more than slightly yellow in color.
- Revise the Good grade to include all remaining carcasses from young cattle.
- Eliminate the Standard grade, and revise the requirements and change the grade names for older carcasses to better reflect their use as "manufacturing beef."

NCA is urging USDA to retain the Prime, Choice, and Good grade names because they are established and recognized.

The American Meat Institute (AMI) generally supports the changes in quality grades in the NCA proposal, but advocates that yield grading be returned to an optional basis with quality grades as they were prior to 1976.

The National Association of Meat Purveyors (NAMP) has indicated opposition to any lowering of requirements for Prime and Choice grades. This group was opposed to the 1975 change in grade standards and joined in court actions which delayed implementation of that change until 1976. Opposition to the NCA recommendations is also expected from other industry groups including certain breed associations and feeders in states with more abundant feed supplies.

Consumers may oppose any reduction of the grade requirements if they perceive the change as lowering quality standards with no accompanying decrease in prices.

III. Farm Animal Welfare

The emerging issue that has been drawing increased attention more recently is the humane treatment of farm animals. The Animal Welfare Act, which is enforced by APHIS, specifically exempts livestock and farm animals from the humane treatment it specifies for practically all other warm-blooded animals.

A major question being raised is whether livestock should be raised under conditions of extreme confinement--the so-called "factory farm." Some groups are focusing attention on the raising of veal calves in individual stalls in darkened barns...on laying hens, which live their entire productive lives in wire cages...and on putting sows in farrowing crates over an extended period of time.

Spokesmen for livestock producers say this confinement offers advantages to both the farm business and the animals. Cattle, chickens and hogs are protected from weather, disease and predators. They produce and gain well--evidence that they are not suffering.

Furthermore, current methods of raising livestock are geared to the most economic methods of production. Changes--or reversion to the "pastoral" methods of yesteryear--are likely to mean sharply increased costs for the consumer at the supermarket.

Another issue being widely discussed is whether research institutions should conduct experiments without concern as to whether the pain for the animals is warranted by the test results. Should rabbits risk blindness to find out if a new line of cosmetics is safe? Is the suffering of laboratory animals justified to find a cure for cancer? Can test methods not requiring laboratory animals be safely--and economically--substituted for traditional laboratory methods?

The Animal and Plant Health Inspection Service recognizes that these issues are generating a lot of discussion. APHIS officials see their role as that of moderator...to bring together divergent views so that each may understand the concerns of the other...and perhaps...reach a consensus of how to interpret the needs of animals.

Along with the role of moderator, USDA is encouraging research to improve our understanding of what causes stress in animals. In late August, the Department announced plans to fund a \$380,000 research project "to determine whether stress is affecting the production of poultry, veal calves and swine under modern farming methods, and if so, how to deal with it." The research will be conducted at the USDA Meat Animal Research Center at Clay Center, NE, and at eight universities.

And, of course, the Department continues to enforce the animal welfare laws now on the books.

IV. Farm Bill

HIGHLIGHTS OF THE AGRICULTURE AND FOOD ACT OF 1981

Commodity	: Minimum Price Support :				Minimum Target Price			
	: 1982 : 1983 : 1984 : 1985 :	1982 : 1983 : 1984 : 1985						
Milk (\$/cwt.)	13.10	13.25	14.00	14.60	NA	NA	NA	NA
Wheat (\$/bu.)	3.55	3.55	3.55	3.55	4.05	4.30	4.45	4.65
Corn (\$/bu.)	2.55	2.55	2.55	2.55	2.70	2.86	3.03	3.18
Upland Cotton (c/lb.)	55.0	55.0	55.0	55.0	71.0	76.0	81.0	86.0
Rice (\$/cwt.)	8.14	8.55	8.93	9.31	10.85	11.40	11.90	12.40
Soybeans (\$/bu.)	5.02	5.02	5.02	5.02	NA	NA	NA	NA
Quota Peanuts (c/lb.)	1/27.5	—	—	—	NA	NA	NA	NA
Cane Sugar (c/lb.)	17.0	17.5	17.75	18.0	NA	NA	NA	NA

1/ The support level for each of the following crop years through 1985 will be adjusted to reflect the change, excluding land cost, in the national average cost of peanut production per acre during the calendar year preceding the marketing year in question. This adjustment cannot exceed 6 percent. Additional peanuts will be supported at a level to be determined by the Secretary. However, the support rate must be set so there are no losses to the CCC.

NA: not applicable

- o If the Secretary determines, at the beginning of the fiscal year, that the net cost of Federal dairy price support purchases will be less than one billion dollars for the upcoming year, the minimum price support will be set at 70 percent of parity. In addition, if the Secretary estimates that net Government dairy support purchases will be less than 4.0 billion pounds (milk equivalent) in fiscal year 1983, 3.5 billion pounds in fiscal 1984, or 2.69 billion pounds in fiscal 1985, the minimum price support for the year in question will be 75 percent of parity. The Secretary may adjust minimum levels upwards, as appropriate, but only annually.
- o No mandatory adjustment mechanism is included for wheat and feed grains price support and target price levels. If the average market price for corn or wheat is not more than 105 percent of the loan level in any marketing year, the Secretary may reduce the loan and purchase level, but by no more than 10 percent and no lower than \$3.00 for wheat and \$2.00 for corn.
- o Although minimum target prices are specified for the 1982-85 upland cotton crops, the actual target prices will be the higher of the minimum levels plus any adjustment by the cost of production formula, or 120 percent of the loan level. The actual loan levels will be determined in the same way as with the 1977 Act.
- o This Act repeals the previously used rice allotment and marketing quotas system. No mandatory adjustment mechanism is included for rice target price. The loan and purchase level will be established in the same way as with the 1977 Act. This level can be adjusted downward if the Secretary determines that it would discourage exports and result in excessive domestic rice stocks. However, it may not be reduced below \$8 per cwt.
- o If the Secretary determines that the average price the producer receives for soybeans is not more than 105 percent of the loan in any marketing year, the loan and purchase level may be reduced, but by no more than 10 percent per year, and no lower than \$4.50.

- o Effective for the 1982-85 crops of peanuts, marketing quotas and acreage allotments are suspended.
- o From December 22, 1981 through March 31, 1982, the Secretary is mandated to support the price of sugar cane through the purchase of processed products in such a way as to approximate a raw sugar price of 16.75 cents per pound and the price of sugar beets at such level as the Secretary determines to be fair and reasonable in relation to the support level for sugar cane.
- o The Secretary is authorized to use either an acreage limitation or a set-aside program to reduce the acreage planted to wheat or feed grains, if needed. The acreage limitation program, but not the set-aside, is available to reduce the acreage planted to upland cotton or rice. Paid land diversion authority is also continued for wheat, feed grains, upland cotton, and rice.
- o The farmer-owned reserve program is continued. The program's operating regulations will be determined by the Secretary.
- o The P.L.-480 program is continued through September 30, 1985.
- o New provisions to compensate producers in the event of embargoes that are agricultural specific are included.
- o The Secretary is given authority to set up an export credit revolving fund and special standby export subsidy program.
- o The food stamp program, with modifications, is authorized to continue for one year.
- o Research, extension, and teaching programs are authorized to continue through fiscal year 1985.
- o New resource conservation programs are established.
- o A cost of production review board and a floral research and consumer information board (Floraboard) are established.

V. Farm Credit

FARMERS HOME ADMINISTRATION (FmHA)

FARM LOAN PROGRAMS

Operating -- For equipment, supplies and other expenses of farm production, to operators of family-size farms who cannot get credit elsewhere. Ordinarily for 1 to 7 years depending on purpose and nature of security (usually chattel). Current interest rate 14-1/2 percent. Loan limit \$100,000 (or \$200,000 for FmHA-guaranteed loan by private lender at commercial interest rate).

Ownership -- Real estate mortgage loans for purchase or improvement of land and essential buildings, to owner-operators of family-size farms who cannot get credit elsewhere. Maximum term 40 years. Current interest rate 13-1/4 percent. Loan limit \$200,000 (or \$300,000 for FmHA-guaranteed loan by private lender at commercial interest rate).

Limited-Resource loan interest rates: operating 11-1/2 percent. ownership 7 percent.

Soil & Water -- On same terms as Ownership (above) for improving use or conservation of soil or water resources on farmland; to owners (not necessarily resident operators) of farmland who cannot get credit elsewhere.

Non-Farming Enterprise -- Real estate or operating loans (same terms as for Operating and Ownership above) to develop and operate non-agricultural enterprises on family-size farms.

Irrigation & Drainage Association -- To nonprofit association of farmers, for multi-farm irrigation systems or drainage improvements. Maximum term 40 years. Current interest rate 13-1/4 percent.

Grazing Association -- To non-profit associations of family-size farms and ranches to create grazing ranges where association members may run livestock. Maximum term 40 years. Current interest rate 13-1/4 percent. Loan limit \$4 million.

Indian Tribal Land Loans -- For tribal repurchase of privately-held tracts within reservation boundaries that can be restored to use by reservation residents. On same terms as Ownership (above), with Limited-Resource interest rate available if borrower cannot afford the regular rate.

Emergency -- See next page.

FARM LOAN PROGRAMS (continued):

Disaster Emergency -- To restore farm property or operations damaged by natural disaster.

For loans offsetting actual amount of loss, the law as now constituted provides for different interest rates and loan limits, according to the date on which a disaster occurred.

A. For farmers unable to get credit elsewhere:

Damage from disaster occurring on or after Oct. 1, 1981 -- interest rate 8 percent; loan limit \$500,000.

Disaster occurring Oct. 1, 1978 thru Sept. 30, 1981 -- interest rate 5 percent; loan limit \$250,000.

Disaster occurring on or before Sept. 30, 1978 -- interest rate 3 percent; loan limit \$250,000.

B. For farmers able to get credit elsewhere:

Disaster occurring on or after Oct. 1, 1981 -- interest rate 17 percent; loan limit \$500,000.

Disaster occurring May 30-Sept. 30, 1981 -- interest rate 15 percent; loan limit \$500,000.

Disaster occurring April 4-May 29, 1981 -- interest rate 14 percent; loan limit \$500,000.

Disaster occurring Dec. 20, 1980 thru April 3, 1981 -- interest rate 13.375 percent; loan limit \$500,000.

Disaster occurring July 3, 1980 thru Dec. 19, 1980 -- interest rate 11-3/4 percent; loan limit \$500,000.

ALSO, for farmers unable to get credit elsewhere, additional production credit exceeding amount of loss or low-interest loan limit may be provided at 15 percent interest. Credit for major adjustments of the farm may be had at interest rates of 15 percent for production purposes and 13-1/4 percent for real estate purposes. Limit on such non-loss credit; \$500,000.

Economic Emergency -- Authority for the program expired Sept. 30, 1981.

HOUSING LOANS & GRANTS:

Individual Housing Loans --

Section 502 -- For purchase or repair of single-family homes; to borrowers of low or moderate income who cannot get credit elsewhere. House must meet Federal Minimum Property Standards when under mortgage to the government.

Where available -- rural areas including towns of up to 20,000 in non-SMSA areas; or, in SMSA areas; towns of up to 10,000 that are rural in character and lack sufficient mortgage credit for people of low or moderate income.

Interest rates: moderate income -- currently 13-1/4 percent.

low income -- from full rate to minimum of 1 percent, as appropriate to application of 20 percent of adjusted gross income to housing payments for principal & interest.

Term for repayment -- maximum 33 years.

Section 504 -- For repair of severely deficient houses to make them safe and sanitary for habitation; to borrowers of very-low income. MPS need not be met. Loan limit \$7,500. Interest rate 1 percent. Maximum term 20 years.

GRANTS: Under Sec. 504, senior citizens (age 62 or over) may receive grants for repair of severely deficient homes to the extent they are unable to afford repayment of loans. Grant limit is \$7,500.

Self-Help -- Low-income families, working in groups, perform much of their own labor in building houses for themselves, consequently need to borrow less under Sec. 502 for materials and cost of work they cannot perform. Operating grants are made to nonprofit organizations that can give organizing and technical assistance to self-help groups.

Multi-Family Housing Loans --

Section 515 -- To public, nonprofit and limited-profit organizations or corporations to build rental or cooperative apartment housing in rural areas (same as defined under Section 502 above). Interest rate: full rate currently 13-1/4 percent, but rates as low as 1 percent may be given to enable operators to accommodate low-income tenants at low rentals. Terms for repayment: 40 years, or 50 years for housing reserved to occupancy by senior citizens.

Mulit-Family Housing Loans (continued):

Rental Assistance -- Subsidizes rent for low-income people who pay 25 percent of their income as rent.

Farm Labor Housing -- Loans for up to 33 years at 1 percent interest; grants for 0 percent of project cost.

Homesite Development Loans -- 2-year loans at 13-1/4 percent interest to non-profit organizations.

COMMUNITY PROGRAMS

Water & Waste Disposal System Loans and Grants:

Loans for up to 40 years to public bodies or nonprofit corporations to build domestic water systems, sewer systems or equip solid-waste-disposal systems serving rural areas, including towns of not more than 10,000 population. Loan interest rate: municipal bond rate (currently 12-1/4 percent), except that a 5 percent rate can be given to communities where per capita income is below poverty level for projects affecting public health and sanitation.

Grants of up to 50 percent of project cost (up to 75 percent in poverty areas) may be given to avoid excessive service fees.

Other Community Facility Loans:

Same terms as for Water & Waste Disposal above, except that facilities may serve communities of up to 20,000. No grants.

Watershed Project Loans -- To local agencies and organizations participating in the Small Watershed Program (supervised by Soil Conservation Service) to cover certain project costs that must be met by those agencies or organizations. Current interest rate 9.352 percent. Maximum repayment term 50 years.

Resource Conservation & Development Loans -- To local agencies and nonprofit organizations to build projects consistent with project plans consistent under basic supervision of the Soil Conservation Service.) Current interest rate 9.352 percent. Maximum repayment term 30 years.

BUSINESS & INDUSTRY

Guaranteed Loans -- Agency is preparing to resume processing of applications when budget allocation is received, transferring approval authority to the FmHA National Office and making other revisions in loan procedure.

Industrial Development Grants -- No provision in pending FY 1982 Appropriations.

V. Farm Credit

FmHA Issues and Outlook for Rural America*

The Farmers Home Administration will continue to carry out its mission in rural America under the guidelines of the President's economic program. FmHA's original mission, as intended by Congress, is to provide credit assistance to rural residents who are unable to obtain sufficient credit from commercial lenders.

In keeping with the President's efforts to balance the federal budget, FmHA, as other agencies, will operate on a somewhat reduced budget. In recent years, the agency had grown far beyond its original intent. It had become overburdened with tangential programs and a vastly expanded budget. It was never intended that FmHA go into direct competition with commercial banks and other lending institutions. Yet, as of January 1, 1981, the agency held 11 percent of all U.S. farm debt. FmHA's complete portfolio ranks with some of the largest banks in the country.

The previous emphasis on expansion had disrupted the agency's excellent record of careful loan making and close supervision and servicing. The agency has one of the best delivery systems in the government with nearly 2,000 county offices throughout the United States and its territories. The close one-on-one relationship with its borrowers is unique in the Federal government.

FmHA is reestablishing its tradition of emphasis on loan servicing through repeated farm visits, comprehensive farm and home plans, financial counseling and the use of expertise of other agencies within the Department of Agriculture.

The agency will also emphasize firm but reasonable efforts to collect on delinquent accounts. At the same time we will use all the economic tools at our command to help individual farmers and homeowners. When possible, we will graduate all borrowers to commercial credit.

The Farmers Home Administration intends to devote a major portion of its resources to assist beginning farmers to become successful full-time farm operators. In cooperation with other agencies in the Department of Agriculture, FmHA is providing this assistance, on a pilot project basis, through the new Full-Time Family Farmer and Rancher Development project. The purpose of the project is to help to ensure a continuing supply of family farmers to provide food and fiber for the nation.

* Speech by Charles W. Shuman, Administrator Farmers Home Administration, to the 1982 Agricultural Outlook Conference.

Local county development committees will select candidates for the project who have been recommended by their peers in the community. The committee, made up of USDA professional and other local farm and credit experts, will review the candidate's experience and resources. Those who require financing beyond that available from commercial sources will be referred to FmHA. If they meet the qualifications, we will do what we can to get them started. It is expected that most of these borrowers will be able to graduate to commercial credit within 5 to 10 years.

Farmers Home will also continue to offer assistance to farmers that need it to recover from a natural disaster. We have taken a number of steps to make the farm emergency program more realistic for the farmer and less costly to the taxpayer. To assure that a uniform criteria is used in disaster declarations, the Secretary of Agriculture now makes such determinations rather than FmHA state directors when more than 25 farmers in a county suffer substantial losses. Low interest subsidized loans are available for actual losses due to disasters. Additional loans, if necessary, are available at rates which reflect the cost of borrowing to the Federal government. More reasonable ceilings have been placed on the total amount of FmHA assistance available following a disaster.

Housing and community programs are being directed to rural areas and small towns as opposed to "urbanizing" areas. These programs are meant to assist people in clearly defined rural areas who need help to obtain a decent standard of living.

The business and industry (B&I) loan guarantee program, which in a very short time grew to over \$1 billion a year, has largely served its purpose. When it was begun in 1974, there was little rural business credit available. Industry had not yet recognized the benefits of locating in rural areas. National migration was toward the larger cities. Today, the situation has reversed. Accordingly, the Administration has requested that the program be terminated.

Farmers Home remains committed to rural development. Emphasis will be placed on local expertise. FmHA involvement will stem mainly from the state, district, and county levels. It is at these levels that the diversity of needs can be best recognized and where the person-to-person assistance is more effective.

Progress in rural development and in rural areas is strongly linked to an improvement in the nation's overall economy. The President's plan for economic recovery is essential to rural prosperity.

V. Farm Credit*

Agricultural Finance Outlook

Nineteen eighty one has been a difficult year financially for many farmers and ranchers. Low net farm income and high interest rates have created considerable financial hardships for farmers and the farm supply firms who serve them. In addition, changes in financial markets and government farm policies and credit programs have modified the traditional methods of dealing with these problems. The purpose of this presentation is to review the financial conditions of agriculture during 1981 and then to provide forecasts of the conditions likely to exist in 1982.

A Review of 1981

It is difficult to summarize all of the possible measures of financial conditions in agriculture. Our discussion here will focus on net farm income, credit availability by lending institution, delinquencies and defaults of farm borrowers, interest rates, and the growth in farm sector equity. Where possible the discussion will focus on both nominal and real changes in financial conditions.

Net Farm Income

While net farm income in 1981 is not yet known with certainty, it is apparent that there will be only a modest increase over the \$19.9 billion recorded for 1980. The failure to achieve the previously forecasted increase in income is primarily due to the failure to achieve higher livestock prices.

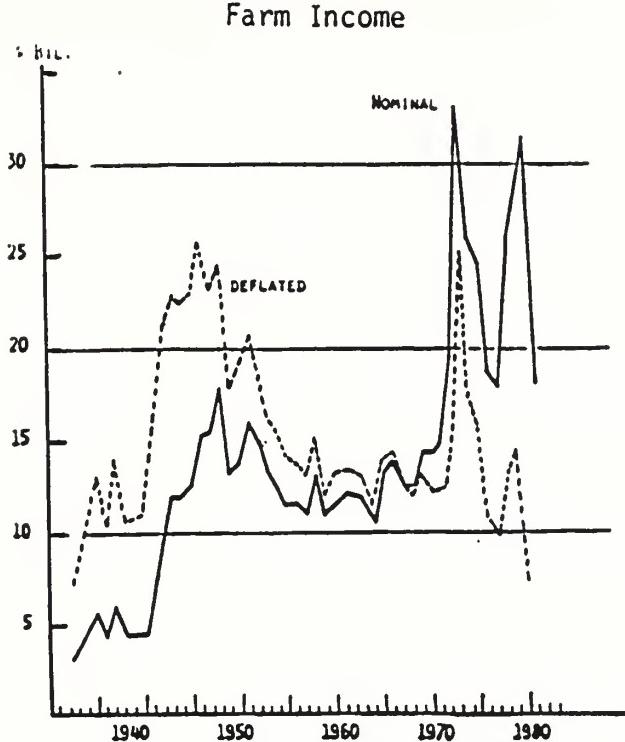
The growth in nominal net farm income has been stagment throughout 1981 while inflation in the general economy has remained high. Adjusting the level of net farm income for the rate of inflation provides a measure of real income. Real net farm income estimated for 1981 is approximately equal to that achieved during the depression (Figure 1). However, recognize that there are fewer farmers now than during the depression so that the amount of real net farm income per farm is well above depression levels, but still well below that achieved throughout the decade of the seventies. Income from off-farm sources has also been a major source of funds for farm families. Growth in off-farm income has matched or exceeded the rate of inflation in most years. However, the group of farmers who receive 82 percent of gross farm receipts receive only 16 percent of off-farm income.

Credit Availability

There has been adequate capital available for farm real estate and non-real estate loans, although high interest rates and depressed commodity prices have tended to reduce the demand for such loans. As of mid-year 1981, non-real estate debt was 9 percent higher than the previous year, the lowest annual increase since 1975. Likewise, real estate debt was up by 12 percent over the same time last year--a growth rate only two-thirds as high as that

* Speech by David A. Lins, Economic Research Service, to the 1982 Agricultural Outlook Conference.

Figure 1: Farm Income in Nominal and Real Terms



achieved by mid-year 1980. The most rapid increases in loan volume have been for the Farm Credit System and the Farmers Home Administration. Slower growth has been experienced by banks and life insurance companies (Table 1).

The average loan to deposit ratio--one measure of fund availability at banks--has dropped from the relatively high level of the 1978-79 period. Surveys indicate that many banks are willing to expand their loan volume if qualified borrowers can be found. With access to the national money markets the Farm Credit System has had little problem in obtaining loanable funds. In contrast, many insurance companies report a lack of funds to support farm mortgage loans. Starting with the new fiscal year, (October 1, 1981) the Farmers Home Administration is scaling back lending for farm ownership and economic emergency loan programs. Funds for operating loan programs, however, are expected to expand. Overall, loan fund availability has not been a problem for qualified farm borrowers.

Delinquencies and Defaults

Given the second consecutive year of depressed farm income, there is considerable concern about potential delinquencies and defaults. However, reports of commercial lenders suggest no major increase in problems, yet. The major exception is at the Farmers Home Administration where delinquencies on farm loans, particularly economic emergency loans, are up sharply. This is not unexpected since FmHA deals with more marginal borrowers.

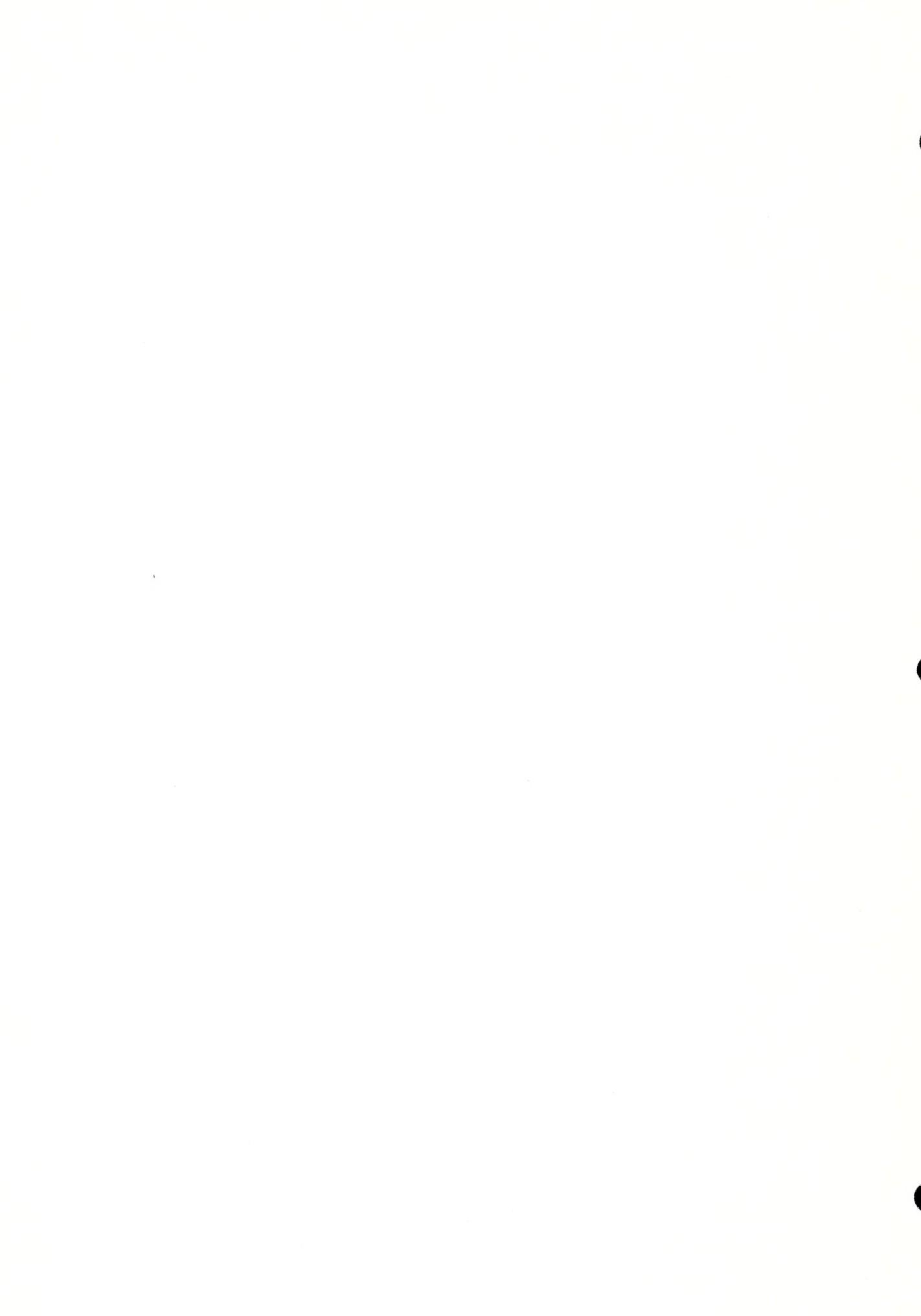


Table 1: Institutional Farm Debt, Changes in Year Ending June 30, 1975-1981^{a/}

Type of debt and lender group	1975	1976	1977	1978	Percentage change in year ending June 30				1980	1981
					1977	1978	1979			
Real estate debt	14	11	15	15	18	18	18	18	18	12
Insured commercial banks	5	4	16	12	5	-2	1			
Federal Land Banks	23	16	16	15	18	24	20			
Life insurance companies	7	7	16	19	18	11	2			
Farmers Home Administration	6	5	9	11	43	32	10			
Non-real-estate debt	10	15	19	16	18	13	9			
Insured commercial banks	3	16	16	5	10	4	7			
Production credit associations	18	12	14	4	17	21	10			
Fed. Int. Credit Banks (OFIs)	-3	5	6	14	31	28	27			
Farmers Home Administration	59	21	25	99	55	37	35			
Commodity Credit Corporation	-35	-8	685	179	25	-9	-42			

^{a/} Source: Emanuel Melichar, "Farm Sector Financial Experience and Rural Banking Conditions, September 21, 1981.

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While many lenders indicate no significant increase in loan collection problems, there is almost unanimous concern over what might happen if farm incomes do not improve soon. Lenders believe that unless incomes improve soon, the problems of delinquency and default will increase significantly.

Interest Rates

Interest rates charged farm borrowers reached record levels during 1981. High nominal interest rates have attracted considerable attention, but it is also important to take into account inflation and taxes. Adjusting for inflation gives a "real interest rate", while, adjusting for inflation and taxes gives a "real after-tax interest rate."

Using interest rates on 3 month treasury bills, it can be shown that there has been an unprecedented swing in real interest rates from negative to positive values since 1979 (Figure 2). Many analysts believe that the high real rates are unlikely to persist for an extended period of time. The high real rates could be eliminated by either a new wave of inflation or by lower nominal interest rates. However, when the economy is slumping, as it has been in recent periods, it is not expected that the price spiral will worsen. Thus some easing in short term rates is needed if real interest rates are to fall.

Interest rates charged farm borrowers typically do not respond as quickly as interest rates on 3 month treasury bills. Therefore it is also useful to look at real interest rates on farm sector loans. Real interest rates on PCA loans (excluding stock purchase requirements) are illustrated in Figure 3. Negative real rates which persisted from the first quarter of 1979 through the second quarter of 1980 have now turned positive. Thus, both the nominal and real cost of borrowing have increased in recent periods.

It is important to recognize that interest expenses are tax deductible so that higher interest rates tend to lower taxable income. Assuming a 30 percent tax bracket, the real interest rates are adjusted to arrive at a "real after-tax interest rate." Real after-tax rates were positive throughout the 1970-73 period. Since 1974, however, real after-tax rates have been negative with only a few exceptions (Figure 3). Notice also that real after-tax rates in 1981 have been no higher than in previous periods.

Despite the fact that real after tax interest rates are no higher now than in previous periods, there is still reason to believe that high nominal interest rates have lowered net farm income. Higher nominal rates increase interest expenses directly for farmers. They also increase production expenses by raising interest expenses for manufacturers and suppliers--increases in costs which may be passed on to farmers. In addition, higher interest rates may affect the demand for products by altering the real income of consumers and by modifying exchange rates and the strength of agricultural exports. However, it appears unlikely that high interest rates are the major cause of the reduced net farm income for 1980-81.

Growth in Farm Sector Equity

Growth in the farm sector equity arises from two primary sources--

Figure 2: Real Interest Rates on 3 Month Treasury Bills

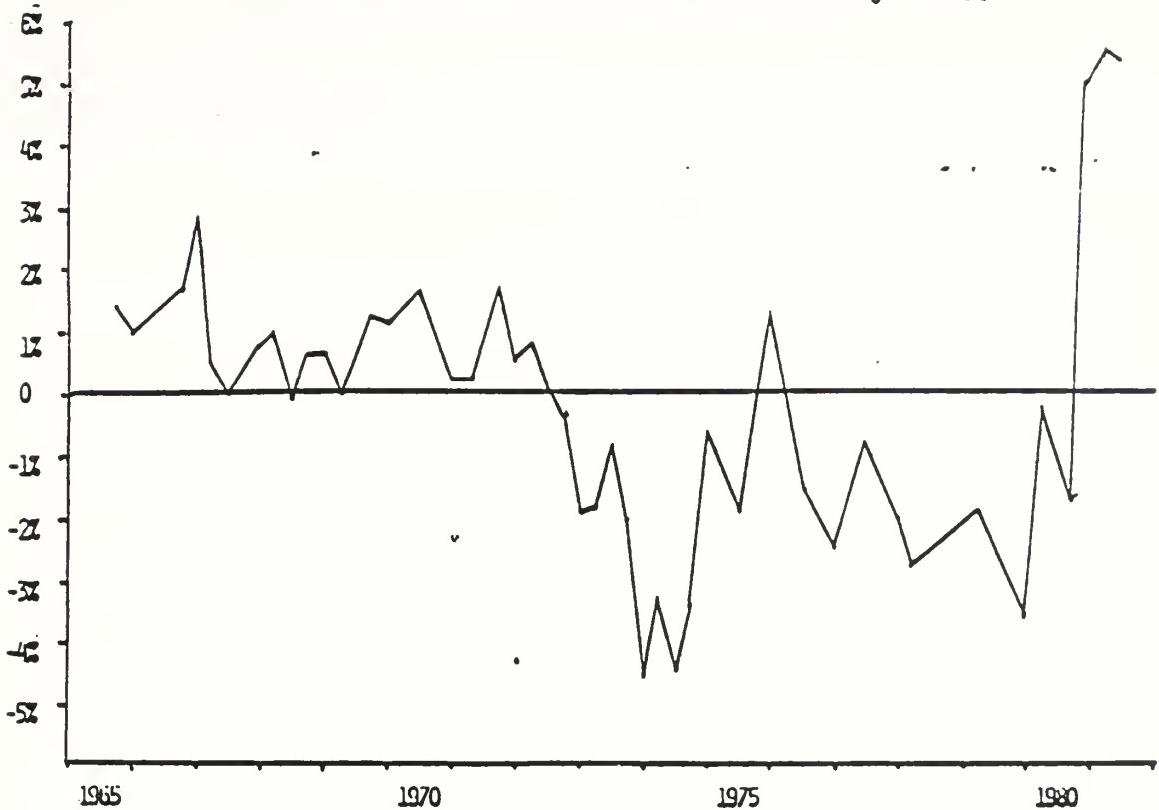
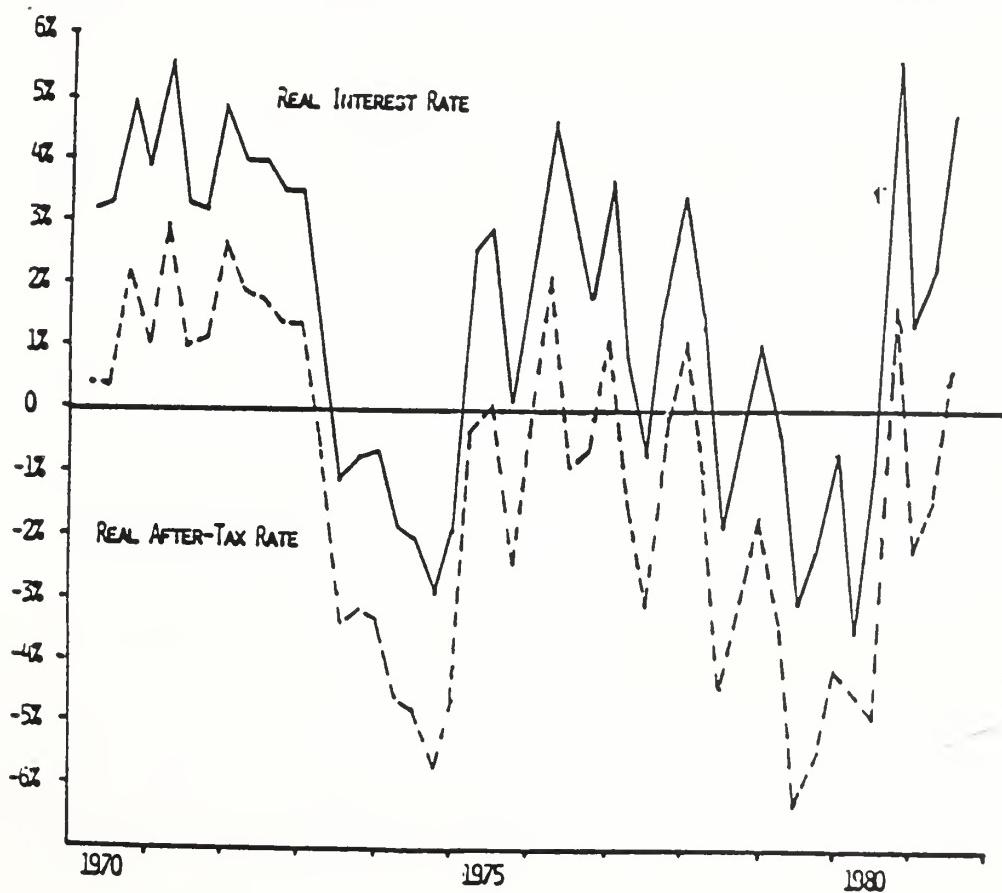


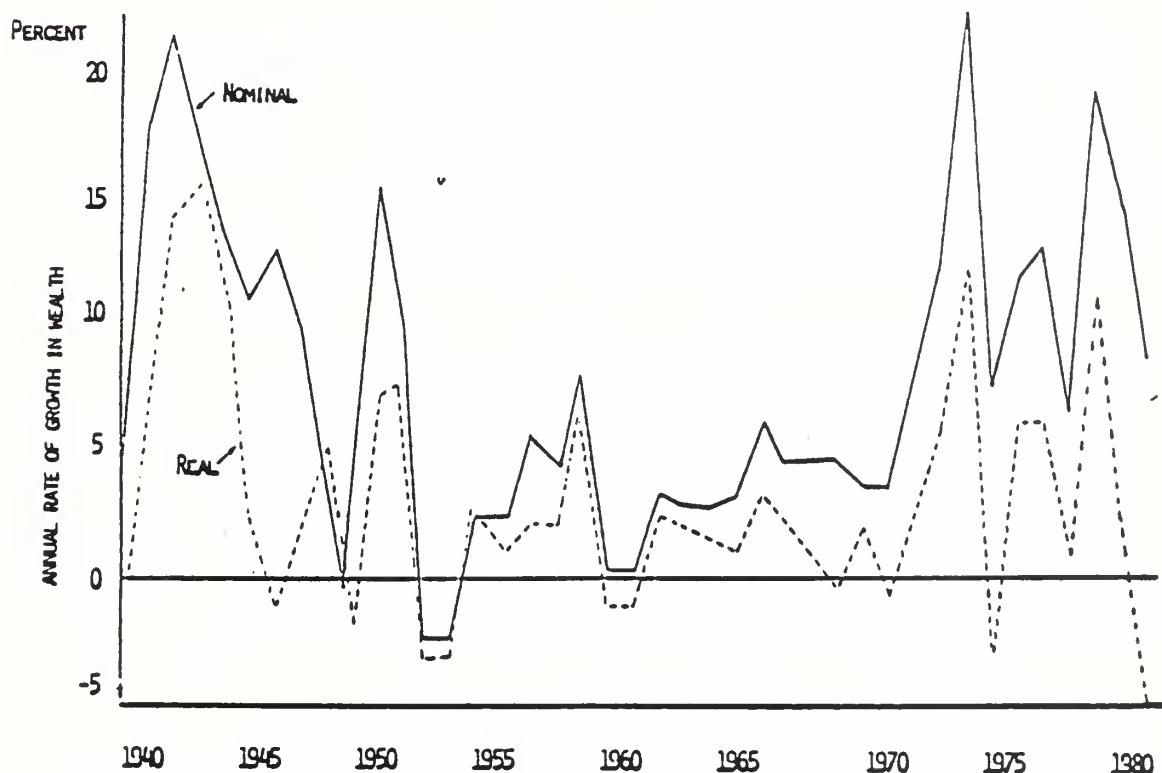
Figure 3: Real and Real After-Tax PCA Interest Rates





retained earnings and unrealized gains in asset values. To maintain or increase the purchasing power of wealth, the rate of growth in equity would need to equal or exceed the rate of inflation. Trends over time in the nominal and real rates of growth in equity are shown in Figure 4.

Figure 4. -- Nominal and Real Rates of Growth in Farm Sector Wealth



Nominal growth rates in farm sector equity have been positive in almost every year since 1940. In contrast, real growth rates have been negative about one-fourth of the time. However, the magnitude of the negative real growth rate is greatest in the 1980-81 period, indicating that the farm sector has suffered significant reductions in real wealth in recent periods, despite the fact that the growth in nominal equity has been positive.

Much of the reduction in real equity stems from the fact that real estate values in most areas have failed to keep pace with inflation. High interest rates and low farm income appear to be the underlying cause.

Prospects for 1982

Financial conditions in agriculture during 1982 are likely to reflect the success of the 1981 Economic Recovery Tax Act and our ability to expand the exports of agricultural products. Large grain stocks resulting from bumper harvests in 1981 will tend to hold down grain prices through the first half of 1982. Improvements in the last half of 1982 seem possible, but

will depend in large part on crop conditions going into the 1982 harvest season. Total net farm income in 1982, however, may be worse than in 1981.

Credit Availability

There should continue to be ample credit available for qualified borrowers during 1982. However, the availability of funds will vary by type of lending institution.

Commercial banks should enter 1982 with relatively favorable loan-to-deposit ratios. In addition, the all-savers certificates made available on October 1, 1981 should attract some additional loan funds from money market funds to commercial banks. Since 75 percent of the funds deposited in all-savers certificates must be used for housing or agricultural loans, there may be some additional loan funds made available for agriculture since few banks may wish to invest in long term housing loans. Granted that banks can invest in mortgage certificates, but if rates on these certificates should drop relative to farm loan rates, an increased interest in providing agricultural loans is likely to develop.

The Farm Credit System should continue to have little problems in attracting adequate funds to support lending operations. However, a fundamental change is occurring in the structure of these funds. Investors in long term bonds have been "burned" badly by the unexpected high inflation of recent years. As a result, the market is less willing to accept long-term bonds. Consequently, the maturity of Farm Credit System bonds, especially those supporting Federal Land Bank lending, have been shortened. While the Farm Credit System has had variable rates for some time, the shorter maturities on bonds will result in variable rates which may be even more variable than they have been in the past.

Fund availability at the Farmers Home Administration is likely to be substantially curtailed in 1982 as the administration seeks to "take care of existing business." Lending authorizations through October 1, 1982 show reductions in the farm ownership loan program and emergency loan programs, but some increase in the farm operating loan programs. The replacement of economic emergency loans with all-risk crop insurance should continue through 1982.

Life insurance companies are likely to continue to struggle to acquire funds for lending to agriculture at rates that are competitive with other lenders. However, insurance companies are actively engaged in attempts to attract capital from pension fund accounts. For example, John Hancock has established an account called ACRE (Agriculture, Capital and Real Estate) which is designed to attract pension fund dollars into agricultural investments including farm mortgages and farmland.

Credit available through merchants and dealers may also expand in 1982. Hit by slumping sales due to reduced net farm income, a number of machinery dealers are expected to offer attractive financing plans to promote sales. Farm supply dealers may also experience an increase in "credit extended" because farm operators may take longer to pay off their charge accounts.

Delinquencies and Defaults:

There is a tremendous equity base in agriculture that could be used to collateralize additional borrowing. This collateral base, combined with the fact that rates on long-term loans, especially at Federal Land Banks, have lagged behind short-term rates will lead some farmers facing cash flow problems to avoid delinquency or default through refinancing. An increase in restructuring of short term debt into long term debt is expected.

Highly leveraged operations will experience the most difficulty since they have little or no ability to support more debt. In addition, commercial lenders in the past have been able to transfer some problem borrowers to Farmers Home Administration loan programs. With the push to reduce FmHA loan programs, such switching may become less feasible. Commercial lenders will then be forced to liquidate borrowers in severe financial trouble. Increases in defaults and foreclosures are expected in 1982, but the percentage of borrowers facing such severe problems is expected to remain low.

Interest Rates

Interest rates during 1982 will depend in large part on the ability of the government to control the rate of inflation in the economy and on the degree to which the Federal Reserve System keeps strong controls on the rate of growth in the money supply. There is now evidence that the inflation rate in the U.S. economy is easing. Projection estimates of the inflation rate for 1982 are now in the range of 8-10 percent -- substantially lower than for 1980 or 1981. However, there is concern that the Economic Recovery Tax Act of 1981 will spur consumer spending and create high budget deficits adding renewed inflationary pressures.

In recent weeks there has been considerable "jawboning" designed to place pressure on the Federal Reserve System to increase the growth rate in the money supply and thereby reduce high interest rates. The extent to which the Federal Reserve accedes to these pressures will have a significant impact on interest rates in 1982. Rapidly increasing the money supply would likely create additional inflationary expectations thereby increasing interest rates. Unusually low growth in the money supply could restrict the supply of credit and thereby maintain the current high interest rates. The Federal Reserve appears committed to a moderate growth rate in the money supply with only a gradual easing in interest rates expected.

While the future direction of interest rates in the economy is not known with any degree of certainty, the direction of some agricultural interest rates is easier to predict. For example, for the first 9 months of 1981, the Farm Credit System issued \$40.4 billion dollars in bonds with a weighted average interest rate of 15.63 percent. For bonds with over one year maturity, the average interest rate was about 14.5 percent. At the same time the interest rates on new loans at Federal Land Banks over this period ranged from 11 percent to 13 percent. Issuing bonds at a higher cost than the interest rate on loans is made possible by the fact that interest rates charged by Federal Land Banks are based upon the average cost of bonds outstanding, not just the most recent issues. However, these figures do suggest that unless the cost of issuing bonds drops drastically, the interest rates charged by Federal Land Banks will rise during 1982.

To a lesser extent, Production Credit Associations face the same problems with rising interest rates as do Federal Land Bank. The cost of bonds issued by the Federal Intermediate Credit Banks exceeded interest rates charged on PCA loans throughout much of the first three quarters of 1981. If the cost of issuance of FICB bonds remains at current levels, PCA interest rates are likely to rise. Because most of the FICB bonds issued are relatively short-term, the average cost of bonds outstanding could drop if the cost of new issues in 1982 drops significantly. A USDA projections model had forecast PCA interest rates in the range of 14-15 percent during 1982.

Interest rates on agricultural loans charged by commercial banks vary tremendously from one bank to the next. During August of 1981, the most common interest rate on bank farm loans was between 19 and 20 percent. If the inflation rate in the economy falls below 10 percent and if the Federal Reserve System maintains a middle of the road posture on growth in the money supply, a significant reduction in bank interest rates might be expected in 1982. This suggests that for the first time in the last 5 years, the interest rate advantage of the Farm Credit System over other lenders will be reduced.

Growth in Farm Sector Equity

Nominal growth in farm sector equity due to retained earnings is expected to remain low during 1982. Prospects for a significant improvement in net farm income, particularly during the first half of 1982, seem poor. Given a third consecutive year of low income, it will be difficult for many operators to save money for investment in the farm business.

Capital gains on assets have also been a major source of growth in equity for the farm sector. Important nonreal estate assets for farm firms include crop and livestock inventories and farm machinery. Capital gains on these assets during 1982 are expected to be minimal since there is little improvement expected in crop and livestock prices over 1981 levels.

If the current projection estimates of poor farm income in 1982 hold true, then the farm real estate market should also remain sluggish. Transfer rates should be low and the value of real estate may increase in the range of 6-10 percent during 1982. However, significant regional differences may develop. The Midwest sections of the country may experience a relatively weak land market because of low prices on corn, beans, wheat and hogs. In contrast, some of the specialty crop areas of the South and in California may experience a relatively strong land market.

Forecasts of the 1982 inflation rate in the general economy vary, but if the overall inflation rate is in the range of 8-10 percent, a continued reduction in the real wealth position of the farm sector is anticipated. If this forecast materializes it will be the first time in the last forty years that real wealth of the farm sector has declined for three consecutive years.

Summary and Conclusions

Nineteen eighty one has been a difficult year for many farmers. While net farm income during the year is likely to be slightly higher than in 1980, real income continued to fall. Likewise, the real wealth position of farmers

has declined. For 1982, there is little prospect for major improvements as real net income and real wealth are forecasted to continue to fall.

There will be an adequate amount of loanable funds at financial institutions for qualified borrowers. However, more borrowers will fail to qualify and government lending agencies appear to be less reluctant than in the past to bail out borrowers in financial difficulty. As a result, some increase in delinquencies and defaults on loans is expected during 1982.

Interest rates on farm loans may decrease for some institutions and increase for others. A drop in the overall inflation rate will place downward pressure on rates at commercial banks. But unless rates drop rather dramatically, there is less hope for a drop in rates charged by the Farm Credit System, especially rates charged by Federal Land Banks.

Overall, it appears now that many of the financial problems in the farm sector during 1981 will remain throughout at least the first half of 1982. Depressed farm income, high interest rates and declining real wealth of the farm sector will continue to be the focus of much discussion and debate. Yet there appears to be a strong grass-roots feeling that the farm sector will eventually emerge into a new period of prosperity. This optimism will help sustain farm firms through the difficult financial conditions expected for 1982.

V. Farm Credit - Update

The beginning of 1982 has seen a credit and cash flow problem for farmers. Several factors have contributed to this financial predicament. In 1980, domestic production suffered from a severe drought. A record crop was harvested in 1981. Unfortunately, increasing exports to reduce supply has been difficult since the dollar has strengthened and most foreign nations have harvested record crops. Farmers have also been plagued by a high inflation rate often reaching double digits. Inflation has increased production costs 8 percent from 1980 and 26 percent higher than 1979. Interest rates have been equally damaging to farmers. Interest rates now comprise 13 percent of total production costs as compared to 7½ percent only ten years ago. Since 1970, farm debt has increased an average of 12 percent per year. Overall, these various factors have resulted in a decrease in net farm income from \$36.5 billion in 1979 to an estimated \$23 billion in 1981 -- a 37 percent decline.

Relief for farmers will require: a lower inflation rate, lower production costs, lower interest rates, and aggressive USDA policies. With respect to USDA initiative, many actions have already been taken. FmHA funds for short-term lending have been increased by 50 percent over 1981 (from \$800 million to \$1.3 billion). Additionally, FmHA loans will be considered on a case-by-case basis to ensure the fullest measure of assistance within sound lending practices. This means new farmer-program loans will be made if applicants have a reasonable chance for success; have shown good faith in repaying other lenders; and have sound production and management practices. The USDA has also pledged to cooperate with the Farm Credit System and the Independent Bankers Association in implementing programs which will loan to deserving farmers. Finally, the USDA will use its full discretionary authority to reamortize, reference, re-schedule and to extend the full range of available financial options.

Despite the current financial problems of farmers, the agricultural industry is very healthy. In 1981, only 300 foreclosures occurred out of approximately 300,000 FmHA loans. The debt-asset ratio for agriculture is also very sound with an outstanding debt of approximately \$200 billion against over \$1 trillion in assets. Agriculture in 1982 will remain financially sound because of a dedicated commitment by USDA.

VI. Farm Income*

Farm Income Situation and Outlook

OVERVIEW

Economic conditions in the farm sector have not been favorable during the past two years and current prospects suggest little improvement is likely for the next several months.

Under pressure from record agricultural production in the U.S. and weakening domestic and world demand, farm prices have declined through 1981. Prices received by farmers this fall are about 6 percent below a year ago and are at about the same level as two years ago. Crop production in the U.S. this year will be a record, up 14 percent from the 1980 drought-reduced harvest. World grain production is also at record levels this year while U.S. and world animal production is large. Significant price increases in the near future would come only with substantial increases in export demand and/or reduced crops in the Southern Hemisphere.

Growth in agricultural product consumption in the U.S. and overseas has not kept pace with growth in production. Following declines in 1980, real per capita income in the U.S. could rise only slightly this year. Real growth in most developed nations around the world has also been slower. This, along with the sharp appreciation of the dollar earlier this year has resulted in less-than-expected exports. Although some increase in demand is expected in the year ahead, real economic growth in the U.S. and abroad likely will continue sluggish.

Farm input prices have stabilized in recent months, but prices paid by farmers for production items are still about 5 percent above a year ago and almost 17 percent above two years ago. Record interest rates on the growing farm debt will more than offset the slowdown in other production costs, and will boost total production expenses 8 to 10 percent in 1981. If inflationary pressures in the general economy continue to subside, farm input prices will moderate in the year ahead. However, total interest expenses will probably rise substantially again in 1982. Nominal interest rates may decline, but likely will stay high by historical standards. Also, as retired debt at low interest rates is replaced by new debt at the higher rate, the average interest rate on all debt outstanding will continue to rise.

Many farmers are currently in a severe cash-flow squeeze as production expenses have risen faster than cash receipts for the second consecutive year. Current commodity price forecasts suggest no improvement is likely, at least through the middle of next year. Traditionally, farmers have been able to withstand short-term fluctuations in income by borrowing against farm

* Speech given by George Hoffman, Economic Research Service, at the 1982 Agricultural Outlook Conference.

equity to cover production loans. However, record-high interest rates, slower rates of increase in land values, and low commodity prices will reduce credit availability to many operators.

When reviewing economic conditions in the farm sector, net farm income and cash flow are usually the focus of attention. It should be noted, however, that net income is only one measure of economic conditions in the farm sector. While net farm income declined substantially from 1979 to 1981, proprietors equity rose from an average of \$303,000 per farm on January 1, 1979 to \$379,000 on January 1, 1981—a 25 percent increase per farm in two years.

As farms have become more specialized over the years, aggregate income has become less descriptive of any particular group of farmers. Much of the decline in net farm income in 1980 and 1981, for example, was felt by the livestock sector and those crop producers hit by drought. In the year ahead, livestock receipts likely will gain relative to crop receipts. Thus, even though aggregate net income levels may be low for three consecutive years, all farmers will not share alike in those declines.

Many farmers have substantial off-farm income. Last year over 60 percent of total farm family income was from off-farm sources. Another major factor determining the economic condition of individual farmers today is their debt/equity position and reliance on credit. Farmers most severely impacted by current low commodity prices are those with recently purchased land or other assets, a high debt/asset ratio, and heavy reliance on purchased inputs requiring financing.

Cash Receipt Increases Slow

Cash receipts in 1981 will be up about 5 percent from 1980 with crop receipts up 7 percent, to about \$74 billion, and livestock receipts up 4 percent to \$70 billion. Prices received by farmers for livestock this year will be about the same as in 1980, but prices received for crops will be up about 7 percent. Cash receipts are currently expected to increase a modest 4 to 6 percent in 1982 reflecting increased crop and livestock marketings, but only slight increases in overall prices received by farmers.

In the livestock sector, lower cash receipts from cattle and calves in 1981 will be offset by higher receipts from hogs, poultry, and dairy. Cash receipts for cattle in 1981 will be down about 2 percent as a 5 percent reduction in cattle prices more than offset an estimated 3 percent increase in marketings. This year cattle prices will average lower than 1980, reflecting the increase in beef production and large total meat supply. Consumer demand has also been weak because of the slow growth of the general economy. Although beef production likely will increase again in 1982, cattle prices could also rise modestly if the demand picture improves. Receipts for cattle and calves in 1982, however, probably will still fall short of 1979 levels.

Hog receipts in 1981 will be up about 10 percent, reflecting reduced pork production but an increase in the price of barrows and gilts of about \$6 per 100 pounds. Even with the slowdown in the general economy, hog prices remained above 1980 levels throughout 1981. With an expected further decline in hog production in 1982, prices should average higher, resulting in a modest increase in hog receipts next year.

Receipts from broilers will be up about 7 percent in 1981 reflecting increases in production and slightly higher prices this year. Broiler production is expected to increase only slightly in 1982, but with some improvement in demand broiler prices will also be "up again, increasing cash receipts as much as 10 percent.

Milk production in 1981 is expected to be up 3 percent and prices up 5 percent, pushing dairy cash receipts up about 8 percent this year. If milk support prices are not increased under the new farm legislation, dairy producers may begin to level off production next year, and dairy receipts would not increase significantly from 1981 levels.

As in 1980, crop receipts have risen more than livestock receipts this year. During the first half of 1981, reduced marketings from the drought-shortened 1980 crop and increased export demand kept crop prices and cash receipts well above year-earlier levels. During the second half of the year, record-high grain production and large harvests of other major crops combined with sluggish domestic and world demand, causing crop prices to fall below year-earlier levels. However, Increased crop marketings offset lower prices, keeping cash receipts about even with year earlier levels in the second half. Increased marketings and lower prices will most likely prevail through the first half of 1982, moderating increases in crop receipts. Crop receipts during the second half of next year will be largely determined by the size of 1982 crops which will be planted next spring.

Food grain receipts in 1981 are expected to rise 12 percent as wheat receipts increase 10 percent and rice receipts rise about a fourth. With wheat prices for 1981 about even with 1980, all the gain in wheat receipts will come from increased marketings from the record large 1980 and 1981 wheat crops. Rice production is up 23 percent in 1981, far surpassing last year's record. Rice prices in calendar year 1981 will exceed 1980's level by 9 percent.

In 1982, food grain receipts may rise marginally if wheat production is reduced through a set-aside and prices rise modestly. Rice receipts in 1982 may stay near the 1981 level as large stocks and resulting price declines offset increased marketings.

Corn production is a record this year, up 22 percent from the small 1980 crop and 2 percent over the previous record crop in 1979. Corn receipts in 1981 may not rise much from last year's level, however, since most of this year's crop will be marketed in 1982. Corn prices and receipts were strong in the first half of the year, but with low second-half prices offsetting increased marketings, second half 1981 corn receipts will fall below year-earlier levels. This will leave 1981 corn receipts about the same as in 1980. Despite increased exports and feed use, 1982 corn prices may fall below the 1981 average. However, increased marketings from the record 1981 corn crop will offset lower corn prices, leaving 1982 corn receipts above 1981 by 6 to 8 percent.

Soybean receipts in 1981, like corn receipts, probably will not show much change from 1980 levels. With more than half of 1981 marketings coming out of the small 1980 crop, total soybean marketings will probably fall about 5 percent from 1980. Although soybean prices declined through 1981 as feed

use fell and world vegetable oil stocks rose, 1981 soybean prices will average about 4 percent higher than 1980, offsetting the decline in marketings. In 1982, soybean receipts should rise moderately with marketings up from 1981 and prices remaining near 1981 levels. Exports and feed use may fall below 1981 levels, but total domestic use will rise as crushings increase.

Cotton receipts in 1981 are expected to be up about 7 percent from 1980. Although 1981 cotton prices were down some, marketings in 1981 will rise about 11 percent over 1980, reflecting this year's large cotton crop. Roughly 60 percent of production is marketed in the current calendar year. Cotton exports were fairly strong in 1981 as other nations sought to build depleted inventories caused by last year's world production shortfall. Cotton supplies will be abundant through early 1982 as this year's large production exceeds projected consumption, resulting in substantial stock increases.

Cash receipts for vegetables in 1981 are up sharply in response to higher potato receipts and strong sales of other vegetables such as dry beans, tomatoes, and onions. Low potato production in 1980 depleted stocks and forced potato prices to historic highs last spring and summer, yielding record receipts for potato growers. A freeze in Florida last January damaged vegetable crops and pushed fresh market vegetable prices up substantially, thereby increasing receipts for growers not hurt by the freeze. For this year, fresh market vegetable prices will average almost 16 percent higher than 1981. Production of dried beans and potatoes are both up this fall. In 1982, vegetable receipts may decline slightly as prices for many vegetables are expected to fall. Receipts from potatoes and dried beans are both likely to decline as prices respond to the increased supplies.

Total receipts for fruits and tree nuts will likely rise about 5 percent in 1981 reflecting substantially larger supplies. Prices received by growers averaged lower, particularly for apples. Citrus supplies were reduced in 1981 resulting from the Florida freeze last winter and consequently citrus prices this spring were considerably higher than a year earlier. Production of almonds and walnuts was record large in 1981 and prices were lower, leading to only modest increases in receipts. In 1982, receipts from fruits and nuts will be modestly above 1981 levels as lower citrus production again leads to higher prices. Marketings of noncitrus fruits may also be reduced, leading to higher prices and receipts.

Tobacco receipts are likely to post a big gain in 1981 with production up 13 percent and farm prices up 17 percent. In 1982, tobacco receipts may level off if yields move back toward longer-term trends, causing production to decline. However, price gains may about offset lower marketings next year, stabilizing tobacco receipts near the 1981 level.

Production Expenses Slowing

Farm production expenses in 1981 are expected to increase about 9 percent, the smallest increase since 1977. Further moderation seems likely in the year ahead.

With some moderation in the underlying rate of inflation in the general economy, farm input price increases should also begin to moderate, especially for energy-based inputs such as fuel, fertilizer and chemicals. With the squeeze on farm income over the last two years, input use likely will not increase significantly. Consequently, farm production expenses in 1982 may rise only 6 to 9 percent, the smallest increase since 1975.

Table 1.—Prices Received and Paid by Farmers, 1977-81

	1977	1978	1979	1980	1981f
Percent change from previous year					
Prices Received:					
Crops.....	- 2.3	6.2	8.9	8.0	7
Food grains	-22.5	22.2	19.9	12.2	1
Feed grains	-19.0	3.7	12.9	15.1	9
Cotton	1.4	-8.8	5.2	22.9	-5
Tobacco	7.3	9.2	7.9	6.5	13
Oil Crops	18.3	-6.7	10.2	-0.9	9
Fruits	25.9	47.8	-0.4	-12.2	-3
Vegetables	9.2	4.8	5.0	2.6	16
Livestock	-0.8	23.7	19.0	-2.4	1
Meat animals	-0.9	34.2	23.8	-6.3	-1
Dairy products	0.5	8.9	13.8	8.4	5
Poultry & eggs	-2.1	6.6	3.7	1.2	5
All Products	-1.5	15.1	14.5	2.2	4
Prices Paid:					
Production items	3.6	8.5	14.7	11.4	8
Feed	-2.4	2.0	11.8	12.6	10
Feeder livestock	2.9	39.6	32.4	-4.0	-5
Chemicals	-9.8	-6.2	2.0	6.7	9
Fertilizer	-2.2	-0.6	8.3	24.4	9
Fuels & energy	7.9	5.3	29.8	37.7	13
Farm/motor supplies :	0.5	3.9	10.5	17.0	10
Autos & trucks	10.4	5.8	10.3	5.5	15
Tractors	9.4	9.1	11.5	11.9	11
Building & fencing ..:	6.5	7.8	9.8	7.8	6
Services & cash rent:	8.5	6.8	9.9	10.2	10
Prod. items, interest :					
Taxes & wages	4.8	8.8	15.0	11.8	8

f - forecast

Farm production expenses for farm-origin inputs such as feed, purchased livestock, and seed make up about a fourth of total production expenses. Non-farm origin inputs such as fuel, fertilizer, chemicals, and repairs make up the remaining three-fourths. Farm-origin input costs are strongly influenced by prices received by farmers and therefore have increased very little in the past two years. However, non-farm origin input prices tend to closely follow the overall inflation rate, and have risen about a fourth from 1979 to 1981.

Feed prices were up about a tenth in 1981, reflecting last year's drought-reduced crop. However, reduced feed consumption will result in modest feed cost increases this year, largely reflecting lower production of pork and cattle feeding. Feed costs in 1982 are currently expected to remain about the same as this year as feed prices drop slightly, but feed use rises due to more cattle feeding and a turnaround in pork production.

Feeder livestock expenses decreased in 1981 as feeder livestock prices fell about 5 percent and livestock feeding was reduced. Feeder cattle make up most of feeder livestock sales and feeder steer prices in 1981 will average about \$6 to \$8 per 100 pounds below 1980 levels. Feeder pig prices were up, but these increases were not enough to offset the drop in feeder cattle prices. In the year ahead, feeder livestock expenses likely will increase significantly. Prices of feeders, both cattle and hogs, are expected to be up, and with improved livestock-feed price ratios more feeders will be purchased and placed on feed.

Seed costs may be up about one-fifth in 1981 as more acreage was planted and seed prices increased substantially. Although total acreage planted may be down some in 1982, higher seed prices next spring are expected to push up seed costs 5 to 10 percent.

Increases in interest rates have greater significance for the farm sector than ever before as agriculture has become more capital intensive and farmers finance a larger proportion of their annual operating costs. During the 1970's the farm sector's total debt increased an average 12 percent per year. Because of rising interest rates, interest expenses rose an average 17 percent per year during the 1970's and currently comprise about 13 percent of farmers' total production costs compared with about 7-1/2 percent ten years ago.

In 1981 total interest costs on real estate and non-real estate debt will reach about \$19 billion, a jump of nearly 20 percent from 1980. This is a result of increased debt outstanding and rising interest rates. The average interest rate on all debt outstanding in 1981 will likely be over 10 percent, a rise of nearly one percentage point from 1980. With moderation, or even some declines in the nominal interest rate on agricultural loans in 1982, the average rate on all debt outstanding will continue to rise as new loans carry a higher rate of interest than loans retired. The combination of higher average interest rates and continued rise in total debt outstanding suggest further substantial increases in total interest expenses for farmers in 1982.

Non-farm origin input prices may not increase as rapidly next year as in the past two years. Stabilizing prices for fuels and energy have had a large effect on slowing the growth rate in production expenses. Petroleum stocks have been large this year as consumption has declined in the U.S. and other countries, resulting in small increases in fuel prices. Following large increases of about one-third each year in 1979 and 1980, prices paid by farmers for fuels and energy will increase about 13 percent in 1981. With farm fuel consumption remaining about stable, expenses for fuel in 1981 will increase less than 15 percent over 1980. Barring unforeseen disruptions in the Mideast, fuel and energy costs in 1982 may further moderate, and rise 10 percent or less.

With energy costs slowing, fertilizer costs will increase about 12 percent in 1981 compared with an increase of over 25 percent in 1980. Fertilizer use is expected to be up slightly in 1981, in response to higher planted acreage, but fertilizer prices will increase less than 10 percent. Fertilizer use in 1982 may decline somewhat if planted acreage is lower. Fertilizer price increases next year are currently expected to be about the same as in 1981, resulting in an increase in fertilizer expenses of 10 percent or less.

Hired labor use this year likely will be about the same as 1980, but wages are expected to continue to increase at about the general inflation rate, boosting labor costs about 10 percent. In 1982, farm wages are expected to slip below the general inflation rate and labor costs may rise 6 to 7 percent.

Pesticide and other agricultural chemical expenses are expected to be up about 10 percent in 1981. Pesticide use will be up only slightly reflecting increased acreage, but prices have continued to increase at about the same rate as inflation. Pesticide expenses are currently expected to rise another 8 to 10 percent in 1982.

Cash Flow Squeezed

Although farm cash receipts have hit record-high levels each year since 1979, farmers' cash costs have risen faster, resulting in lower net cash income. Following a 17 percent increase in cash receipts in 1979, receipts rose only 3 percent in 1980 and are likely to grow only about 5 percent in 1981. Total cash expenses, however, will rise about 9 percent in 1980 and again in 1981, more than offsetting the modest receipt increases. Net cash income available to farmers for purchasing assets, loan retirement, and other expenditures has declined from record highs of \$37.6 billion in 1979 to \$33.0 billion in 1980, and will be down to about \$31 billion in 1981—an 18 percent decline in two years (see table 2).

Even if production costs moderate in the year ahead, to an increase of 6 to 9 percent, it now seems unlikely that commodity prices will strengthen enough to offset cost rises. Current prospects would indicate that cash receipts may increase in the range of about 4 to 6 percent in 1982. As a result, net cash income could decline another \$1 to \$3 billion, to the lowest nominal level since 1977.

In addition to cash receipts from the sale of agricultural products, the farm production sector also has other cash sources from real estate and nonreal estate business loans, net changes in currency and demand deposits,

and rent income from other farmers. A large proportion of the cash made available from loans would be expected to be used for the purchase of capital items—tractors, machinery and buildings. Net cash flow is the sum of net cash income from farming, loans, and rent, less capital expenditures, and is a measure of the change in cash available for household consumption, further business operations and purchases of farm real estate.

With the squeeze on farm income in 1980, farmers reduced their increase in borrowing from nearly \$21 billion in 1979 to under \$16 billion in 1980 (table 2). Capital expenditures were also reduced, but not as much as loans, resulting in a further drawdown in the farm sector cash flow. Current indications suggest borrowing during 1981 has picked up from the 1980 rate and farm debt could rise \$16 to \$20 billion this year. If capital expenditures remain near the reduced 1980 level of around \$18 billion, and with only modest increases in rent income this year, farm sector cash flow in 1981 could be about the same or slightly higher than 1980.

When measuring economic conditions in the farm sector in terms of the traditional net farm income accounts, which include income and expense imputations for the rental value of farm dwellings, the value of home consumption, depreciation and inventory changes, net incomes have been much more volatile and declines have been more dramatic since 1979. This has been partly due to the large component in production expenses for capital depreciation, but more importantly because of large inventory adjustments in recent years.

Between 1970 and 1973 net farm income jumped 135 percent followed by a decline of 45 percent through 1977. This cycle was then repeated with a 78 percent rise in net income between 1977 and 1979 followed by a 40 percent decline in 1980. After inventory adjustment, net farm income declined from a record level of \$32.7 billion in 1979 to \$19.9 billion in 1980, a drop of 39 percent. More than half of the decline (\$7.3 billion), however, was due to inventory change, as the bumper 1979 crops and resulting large carryover at the end of 1979 was followed by a drought-reduced crop in 1980 and the subsequent inventory drawdown.

This situation is now reversed as record crops this year will serve to raise inventories at the end of this year and add to net farm income. This has produced an unusual situation where cash incomes and net farm income before inventory adjustments will decline about \$2 to \$3 billion from 1980 to 1981, but net farm income after inventory adjustment in 1981 will total around \$22 billion, a gain of \$2 billion from 1980. Net income from farm sources will then average about \$9,100 per farm this year compared with \$8,180 in 1980.

The net farm income outlook for 1982 not only includes forecasts for next year's crops but also of carryover at the end of next year. Current prospects could be aggravated in coming months by large crops in the Southern Hemisphere and weak economic conditions throughout the world. Large 1982/83 world crops would further compound a large supply situation. In contrast, if Southern Hemisphere crops were reduced, foreign buyers began to aggressively bid for available supplies, and if world economic conditions improved dramatically in late 1982 in the face of small 1982/83 crops, a much stronger income

picture would result. The magnitude of swings in inventories and prices under such conditions are very large and will be a key determinant of the level of 1982 net farm income. Without knowing the level of 1982/83 U.S. commodity output or the potential usage based on world crop developments and economic conditions, the magnitude of the swings in commodity prices and inventories make forecasts made at this time highly tentative.

Despite the current uncertainties, there is little evidence of a good year for farm income in 1982. It would seem likely that cash income could be down another \$1 to \$3 billion. Declines in net farm income after inventory adjustment would be even greater, assuming a return to more normal crop yields in 1982. For the third consecutive year many farmers will need to reschedule debt and defer capital expenditures.

Table 2.—Net Cash Income 1/

	1977	1978	1979	1980	1981f
Billion Dollars					
:					
Cash Receipts:					
Crops	48.7	53.7	63.4	69.0	74
Livestock	<u>47.6</u>	<u>59.2</u>	<u>68.5</u>	<u>67.4</u>	<u>70</u>
Total	96.3	112.9	131.9	136.4	144
Government Payments	1.8	3.0	1.4	1.3	2
Other Cash Income	<u>1.6</u>	<u>1.7</u>	<u>2.1</u>	<u>2.2</u>	<u>2</u>
Total	99.7	117.6	135.4	139.9	148
Cash Expenses	<u>73.6</u>	<u>82.3</u>	<u>97.8</u>	<u>106.9</u>	<u>117</u>
Net Cash Farm Income	26.1	35.3	37.6	33.0	31
Change in Loans:					
Real Estate.....	6.6	6.5	10.9	8.6	10
Other	5.7	8.3	10.0	7.1	8
Change in Currency	0.1	0.1	0.1	0.1	0
Rent Income	<u>4.6</u>	<u>5.6</u>	<u>6.1</u>	<u>6.6</u>	<u>7</u>
Total	43.1	55.8	64.7	55.4	56
Capital Expenditures	<u>16.8</u>	<u>17.9</u>	<u>19.9</u>	<u>18.4</u>	<u>18</u>
Net Cash Flow	26.3	37.9	44.8	37.0	38

1/ Excludes farm households.

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Farm Debt Increases

While net farm income is currently depressed, the value of farm sector assets has continued to rise somewhat faster than farm debt, resulting in an increase in farm equity. At the beginning of 1981, total assets of the farm sector, including households, were \$1.09 trillion. This was balanced by total liabilities of \$175 billion and proprietors equity of \$916 billion. While net farm income declined in 1980 and remained low in 1981, per farm equity at the beginning of 1981 was almost \$380,000. Serious cash flow problems over the last two years, however, have forced many farmers to borrow heavily against their equity to finance current-year farm operations.

Table 3.--Farm Income 1/

	1977	1978	1979	1980	1981f
Billion Dollars					
:					
Cash Receipts:					
Crops	48.7	53.7	63.4	69.0	74
Livestock	<u>47.6</u>	<u>59.2</u>	<u>68.5</u>	<u>67.4</u>	<u>70</u>
Total	96.3	112.9	131.9	136.4	144
Government Payments	1.8	3.0	1.4	1.3	2
Other Income 2/	<u>9.6</u>	<u>11.0</u>	<u>13.3</u>	<u>14.8</u>	<u>16</u>
Total Income	107.7	126.9	146.6	152.5	162
Production Expenses	<u>90.3</u>	<u>101.1</u>	<u>119.2</u>	<u>130.7</u>	<u>143</u>
Net Farm Income					
Before Inventory Adj.	17.4	25.9	27.4	21.9	19
Inventory Change	1.0	0.6	5.3	-2.0	3
Net Farm Income					
After Inventory Adj.	18.4	26.5	32.7	19.9	22
Dollars					
Income Per Farm:					
Farm Sources	7,489	10,861	13,456	8,180	9,100
Off-farm Sources	<u>10,313</u>	<u>11,533</u>	<u>13,667</u>	<u>14,820</u>	<u>16,100</u>
Total	17,802	22,394	27,123	23,000	25,200

1/ Includes farm households.

2/ Includes income from recreation, machine hire and custom work, the imputed value of farm operator dwellings and the value of farm products consumed on the farm.

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Farm debt has nearly doubled in the past 5 years and has become a major source of increasing cash flow problems. The farm sector's debt servicing burden has increased even more sharply due to higher volume of debt, to greater reliance on higher open market interest rates and the roll-over of old debt at higher current rates. As a result the farm sector's debt-income ratio has doubled over the past two years.

Farmers have coped with cash flow problems by rescheduling debt payments, taking on more debt, and postponing large capital expenditures. Reflecting declines in net income during 1980, farmers tightened their belts and reduced capital expenditures by about 8 percent (see table 2), the first year-to-year decline since 1968. With lower capital expenditures, total debt also rose more slowly than in 1979. After two years of reduced incomes, current indications suggest farmers are continuing to curtail capital expenditures. However, debt outstanding may rise by 10 percent or more by January 1, 1982, as farmers borrow more heavily to cover current year operations. After two years of restricted cash flow, it has become increasingly difficult for farmers to service existing debt and after two years of deferred capital expenditures machinery and equipment need to be replaced. The availability of credit will become an even greater problem if asset values, particularly farmland values, rise more slowly or stabilize and lenders become less willing to extend credit secured by farm real estate.

Income Variability

The farm sector has become more diverse over the years and aggregate indicators are less useful for describing the economic conditions for any particular group of farmers. Net incomes are highly variable depending upon commodity produced, region, farm size, debt structure and off-farm opportunities.

Crop farmers have generally fared better than livestock farmers over the past two years. After deflating by the input price index, crop cash receipts in 1981 were only reduced about 4 percent from 1980, and 1980 receipts were the highest in several years. Deflated livestock receipts dropped 5 percent in 1981, but were 16 percent below 1979.

Within the crop sector, wheat and corn producers have had rising real receipts while deflated soybean receipts declined 18 percent over the period 1978-81. Crop farmers whose yields were severely reduced last year due to drought were not able to take advantage of high prices in 1980 and therefore likely had low incomes in 1980-81. Many crop farmers in the Eastern Corn Belt and Lake States, however, had record yields and many may have had the highest incomes ever. In the livestock sector, deflated receipts to cattlemen have declined 27 percent from 1979 to 1981 while dairy receipts have risen.

During the past two years one of the most important determinants of the economic condition of individual farmers has been their level of indebtedness and reliance on credit to finance farm operations. Well-established farmers with low debt and minimal credit needs will be better able to withstand temporary periods of cash flow declines than will new entrants to farming. Some farmers with recent large asset purchases financed at high interest rates may be forced to liquidation. Generally, large farms are more likely

to be overextended on debt. Farms in the smaller sales classes of less than \$10,000 of sales per year have debt to asset ratios of 5 to 7 percent compared with an average 20 percent for farms with sales of \$100,000 or more this year.

Total income of farm operator families depends importantly on off-farm sources of income. In 1980, farm operators averaged less than 40 percent of their total income from farming and over 60 percent from nonfarm sources. Operators of small farms, with total sales of less than \$5,000 of agricultural products per year, generally receive less than 10 percent of their total income from farm sources. For those farms with sales over \$100,000, however, farm income made up nearly three-fourths of the total income. Small farmers are more dependent on the general economy for their well being, but large farmers are affected greatly by the variability in farm income.

Summary

The farm sector has experienced a second and faces the possibility of a third year of low net income. Net cash income from farming in 1981 will be about 18 percent below 1979 peaks and further declines are possible in the year ahead. After adjusting for depreciation of capital assets and farm inventories, net income declines are even greater.

Record U.S. and world crop production, large livestock output, and relatively weak demand growth in the U.S. and abroad have combined to hold down farm receipts. The large volume of products to be marketed from the bumper 1981 harvest likely will keep farm prices low and limit increases in farm receipts, at least through mid-1982. Farm production expenses, led by increases in interest expenses, will rise as much or more than receipts, suggesting a continued squeeze on net income into 1982.

Farmers have coped with this cash flow problem by rescheduling payments, taking on more debt, and postponing large capital expenditures. However, after two years of cash flow declines, it has become difficult for some farmers to service existing debt. The debt-income ratio has doubled over the last two years. The availability of credit could become an even greater problem if asset values, particularly farmland values, rise more slowly or stabilize and lenders become less willing to extend credit secured by farm real estate.

The farm sector is not homogeneous and broad generalizations do not adequately describe economic conditions for all farmers. There are wide income variations according to commodity produced, region, size and tenure of operators. Well-established farmers with a large equity base are better able to withstand short-term declines in income than are new entrants to farming or those farmers who have recent large capital purchases financed at high interest rates. While some farmers are overextended, the farm sector still has a relatively low overall debt-equity ratio of 16 to 17 percent and has a substantial per-farm equity base.

Farm operator families also receive substantial income from off-farm sources. Although net income from farm sources continues relatively low in 1981, total income per farm may exceed \$25,000, second only to 1979's \$27,123.

VII. Food Safety

SUBJECT: Adulterated Australian Meat

Current Information

Australia's 1,800 Commonwealth meat inspectors went on strike November 4, reportedly because negotiations for a 25 percent pay increase broke down. The strike by the Meat Inspectors' Association is expected to severely disrupt Australia's meat exports because new regulations do not allow product sealed and locked in storage to be moved unless inspectors are present. U.S. meat importers and processors say the strike should have little impact on the U.S. processing industry. Negotiations are continuing.

On October 30, FSIS completed tests on representative samples of boneless beef shipped to this country from independent boning operations in Victoria, Australia. All Victoria product had been impounded since September 4. Meat from 23 of 28 plants has been released, which permits shipments on hold at ports-of-entry and those en route to the U.S. to be inspected for entry.

In early September, product from Jason Meats (Est. 622) was found to contain horse meat. The Australian government notified Agency officials September 23 they had found horse meat in a shipment bound for export (not to the U.S.) from Steigers Meat Supply (Est. 775), Victoria. On October 2, FSIS laboratory tests uncovered the presence of mutton in product labeled "boneless beef" from another Victoria plant, Tabro Meats (Est. 1360). Also, FSIS delisted Jakes Meats (Est. 1317), based on investigation information. Product from the four plants is still under impoundment but may be tested for species (on a lot-by-lot basis by FSIS-approved laboratories) by its American owners. Impounded product from Profreeze (Est. 140C) is declared unfit for human food. The five firms are under suspension by Australia.

Members of the National Cattlemen's Association have completed a tour of five U.S. ports-of-entry to observe present import inspection procedures. The Association met with Assistant Secretary McMillan in September to discuss ways to tighten FSIS inspection requirements.

R.W. Gee, Director of the Australian Bureau of Animal Health, invited FSIS Administrator Houston to visit Australia to observe the new security procedures and pre-export species testing program, as accepted by USDA. Dr. Houston will be leaving for Australia November 20.

Background

Adulterated meat from Profreeze (Est. 140C), Victoria, Australia, was first discovered in late July by a USDA processing inspector. Subesquent tests revealed that adulterated Profreeze product entered this country as early as January, and that some may have contained kangaroo as well as horse meat. On August 25, USDA announced measures to prevent a similar incident, and ordered that all Australian beef imports be impounded, sampled, and tested for species to determine if the problem was more widespread. Tests showed the presence of horse meat in product from a second Victoria plant, Jason Meats (Est. 622). On September 4, USDA released all the impounded meat other than product from Victoria, based on laboratory test results and investigations by OIG and the Australian government.

VII. Food Safety

SUBJECT: Court Actions on Meat Adulterated with DES

Current Information:

On June 30, the government filed a notice of appeal on a recent court decision which ordered release of 170,000 pounds of beef containing the growth-promoting hormone diethylstilbestrol (DES). Judge Patrick Kelly of the U.S. District Court of Kansas had ruled that the meat was not adulterated. In response to a Government request, the court stayed its order to release the beef pending outcome of the appeal. USDA is awaiting the Solicitor General's final decision as to whether the U.S. will pursue the appeal. The 10th Circuit Court of Appeals has questioned whether it has jurisdiction in this matter. Its decision is expected shortly.

USDA recommended an appeal to preserve its discretionary authority to determine when meat products are adulterated from biological residues. The Court decision adversely impacts on USDA's responsibilities to protect the public health. In addition, because the Court assessed the U.S. government for the costs of the action, USDA wants to challenge that monetary claim while forestalling an unfavorable precedent regarding similar claims against the government.

While acknowledging that DES was present in the beef, Judge Kelly ruled that the government had failed to prove that consumption of the beef might be harmful to human health. He also said USDA could not exercise discretionary authority to determine that a product is adulterated with biological chemical residues without initiating proper rulemaking procedures.

Another case concerning DES-containing beef is pending in Texas. Both sides are testing samples for DES.

FDA has recently verified there are no cattle with DES in U.S. feedlots. Nevertheless, the Canadian government still is requiring beef and cattle exporters to certify that DES was not administered to the animals. This was imposed as a result of the illegal use of implants and will be enforced until October 31, 1981.

Background Information:

The FDA banned the use of DES in cattle feed and in implants after November 1, 1979, based on scientific evidence that the hormone may cause cancer and other defects in the human reproductive system. Tests also show the drug induces certain types of cancer and birth defects in laboratory animals. The FDA ban was upheld last fall by the U.S. Court of Appeals in Washington, D.C.

In March 1980, FDA found widespread, illegal use of DES implants in cattle in feedlots in 21 States. In April of that year, USDA detained beef from cattle with DES implants in Kansas, Texas, and Colorado. The Kansas decision concerns the beef detained in that State. The Texas case is still pending, but the Colorado plant voluntarily destroyed its beef.

VII. Food Safety

SUBJECT: Handling the Problem of Hazardous Residues in the Food Supply

As part of the responsibility for assuring the safety and wholesomeness of the meat and poultry supply, FSIS has taken several steps to assure that meat, poultry and egg products are free of residues of harmful chemicals. By alerting producers early of contamination anywhere along the food chain, huge economic losses can be prevented. Furthermore, prevention of serious incidents can avoid calls for new legislative controls.

In 1967, USDA set up the National Residue Program to monitor the meat and poultry supply for residues, identify problems and work toward solving them. A serious contamination problem occurred in 1979 when a broken transformer in a plant making animal feed components leaked PCB which spread to poultry and eggs in 19 States. Immediately thereafter, FSIS set up a contamination response system to cut through red tape from initial detection through final clean-up. The system, which calls for liaison between USDA and other Federal and State agencies involved, has worked well in nearly 100 residue violations.

Last year, the General Accounting Office issued a generally favorable review of Federal agency actions since the 1979 PCB incident. Its Dec. 31, 1980 report concluded, however, new methods are needed for detecting and identifying additional hazardous chemicals. Further, clear definitions are needed as to which agency should assume leadership in different types of incidents.

The Food and Drug Administration (Department of Health and Human Services) sets tolerance levels for animal drugs and the Environmental Protection Agency for pesticides and toxic substances. Any meat or poultry product containing residues above tolerance is considered adulterated; FSIS is required by law to keep such products from interstate commerce.

VII. Food Safety

SUBJECT: Field Realignment

Current Information

FSIS has completed a major effort to realign its meat and poultry inspection field supervisory structure. This was accomplished with no loss in consumer protection. The impetus for realignment was the need to correct an unequal workload distribution--particularly at the circuit level--resulting from program changes over the last decade.

The effect of the realignment has been to change some regional boundaries, to reduce area and sub-area offices from 38 to 27, to reduce circuits from 235 to 199, and to generate annual cost savings of nearly \$1 million.

In the process of carrying out the realignment, systems have been developed for data collection and monitoring which will help reduce the need for further substantial realignment in the near future.

Background Information

The inspection force in a meat or poultry plant varies in number, depending on the size of the operation. A number of these in-plant inspection teams are supervised by a circuit supervisor. The next level in the field structure is the area office, which has two major functions: management of the inspection program within a defined geographic area and liaison with state inspection programs. The area offices are staffed with one to three professional managers and a support staff. Five regional offices supervise inspection activities and become involved in planning and management strategies for the areas under their jurisdiction.

While the in-plant inspection force, circuit supervisors, and area offices are concerned with the quality of inspection in their plants, the regional offices implement broad-based program objectives within a large area.

Regional realignment became effective Jan. 25. Effective Feb. 9, MPI area offices were closed in St. Paul, Minn.; Montgomery, Ala.; Nashville, Tenn.; Charlottesville, Va.; Storrs, Conn.; Trenton, N.J.; Olympia, Wash.; Lansing, Mich.; and Indianapolis, Ind. The June 1 closure of the Lincoln, Neb., office completed the scheduled area office closings. Realignment of the fifth region was completed in November.

VII. Food Safety

SUBJECT: Food Labeling

FSIS's goals in the labeling area are to modernize and streamline food labeling regulations and procedures so that they more effectively meet the needs of the industry and consumers.

In early August USDA received a petition from the American Meat Institute requesting delegation of some label approval authority to the field. USDA tested this concept in a voluntary pilot program that ended July 29, 1981. Under the program, about 300 inspectors in three selected areas of the country had authority to approve certain simple types of labels, as well as final labels that had been approved in sketch form by the Washington staff. The pilot program task force recommended permanently delegating certain label approval authority to the field, nationwide. A proposal is being developed and is expected to be issued for comment in early 1982.

In May 1981 the agency initiated a process companies may use to appeal label approvals. This process precedes administrative appeal.

The prior approval process has generated a set of informal policy guidelines for product names and standards. A draft proposal to add these standards to the regulations is moving through clearance channels.

USDA does not plan to propose any of the labeling policy changes (including proposals for nutrition labeling) outlined in a Dec. 1979 announcement unless they can be shown to be necessary and cost-efficient. However, USDA will work closely with HHS to ensure that FSIS labeling policies are consistent with those of FDA. USDA also continues to encourage industry to nutrition label on a voluntary basis.

VII. Food Safety

SUBJECT: Imported Meat Amendments

Current Information

On October 22, the House of Representatives passed an amendment to the Farm Bill, offered by Rep. Glenn English, (D-Okla). The amendment would prohibit the use of agricultural chemicals or animal drugs that have been prohibited for use in this country "for reasons of health or safety by final judicial action or by administrative action that is final."

The Senate version--offered by Sen. John Melcher (D-Mont) and approved September 18--would prohibit the importation of meat products "which have been produced using agricultural chemicals, animal drugs, or medicated feeds which are not currently approved for the same use in the United States." Because of the potentially severe limitations on meat imports posed by these amendments (many exporting countries do not presently meet the requirement), USDA is working for deletion or change in the conference on the Farm Bill, which began September 4 and is expected to extend into next week.

Background

As passed, the amendment would create non-tariff trade barriers, which not only run counter to this Administration's free trade policy, but would have the effect of shutting off most meat imports. International trade agreements in which the United States has participated require that imported products not encounter greater requirements than those that are domestically produced. In the past, the U.S. has opposed attempts by other countries to create non-tariff trade barriers for our products. If Congress were to enact the proposed amendment, U.S. exporters could expect to encounter more restrictions on sales of their products abroad. The Department, therefore, is opposing all meat import amendments.

USDA believes that existing mechanisms--particularly those in place as a result of the adulterated Australian meat incident--are sufficient to screen unwholesome product. The Department is in the process of implementing steps that include: spot-checking for species determination of all boneless meat imports; requiring that all countries shipping boneless meat to the United States initiate a species monitoring program; and reviewing compliance activities within major exporting countries to assure their controls maintain the integrity of meat exports destined for the United States.

VII. Food Safety

SUBJECT: Interstate Shipment of State Inspected Product

Current Information

Earlier this year, Sen. Lloyd Bentsen (D-Tex.) introduced a bill amending the Federal Meat Inspection Act and the Poultry Products Inspection Act to permit the interstate and foreign shipment of state inspected product. Present law prevents the marketing across state lines of product inspected in state inspection programs. The National Association of State Departments of Agriculture (NASDA) supported the Bentsen bill.

Since that time, NASDA worked with FSIS to develop new language that meets USDA's concerns that allowing state inspected product to be exported would force the United States to remove restrictions against the import of meat and poultry inspected under state, local, or provincial inspection programs in foreign countries. The Department recently instructed FSIS to prepare the NASDA proposal as a USDA legislative initiative.

The proposal includes provisions to:

- permit state inspected products to move in interstate commerce, but not into foreign commerce. In plants that ship product into foreign commerce, state inspected product must be kept separate.
- require states to use their inspection marks on state inspected product, so it can be easily distinguished from federally inspected product.
- establish procedures for plants to apply for inspection services or for a transfer of inspection authority. A plant wishing to change from state to federal inspection or the reverse may do so only on October 1 of any year, after having given six-months notice to both USDA and the state. USDA has final authority on any transfers. The procedures are intended to prevent plants from pitting one program against the other and, additionally, to allow for orderly budgeting and resource allocation.
- require state inspected products moving in interstate commerce to meet the federal requirements for marking, labeling, packaging and ingredients. States cannot impose any trade barriers against such products.

Background

The Wholesome Meat Act of 1967 established the federal-state cooperative inspection program. In discussion preceding passage of the Wholesome Poultry Products Act in 1968, Congress first considered the issue of shipment of state inspected product into interstate commerce. The issue has come up several times since, and USDA has taken varying positions on the proposal. Proponents of the proposal point out that state inspection programs are required to be "equal to" the federal program. As an incentive for developing and maintaining "equal to" inspection programs, states receive annual federal grants of up to 50 percent of the costs of the state program.

USDA is responsible for evaluating state inspection programs but has no direct authority over the inspection of product at state inspected plants. USDA assumed responsibility for Rhode Island's meat and poultry inspection programs October 1, and for Michigan's meat inspection program October 3. The Department now conducts meat inspection in 23 states and poultry inspection in 27 states.

VII. Food Safety

SUBJECT: Law Suit filed against Quality Control Inspection Program

On Oct. 19, the American Federation of Government Employees and the union of meat and poultry inspectors filed suit against USDA in U.S. District Court in Washington, D.C., seeking to halt the Quality Control Inspection Program for processed meat and poultry products. The suit contends that quality control inspection is illegal because it allows employees of processing plants to inspect products instead of the USDA inspector. It further charges that the logo permitted on products produced in an approved plant misleads consumers to believe the product was inspected by USDA and is superior to other products which carry only the inspection mark.

The Quality Control inspection program was implemented by USDA in Sept., 1980, to improve and modernize the federal meat and poultry inspection program. Plants may voluntarily apply for approval of their quality control system. If the system will assure production of products complying with USDA requirements, it is approved, and USDA inspectors monitor and verify the system and the records. FSIS has a special training program for inspectors who work in quality control plants.

Quality control is more efficient because it takes advantage of existing food processing technology. It is more effective in consumer protection because it relies on objective factors, such as laboratory analysis and recorded controls, in addition to on-site inspection.

Quality Control inspection is available to plants that further process meat and poultry products. It does not apply to slaughter inspection.

Thirty-nine processing plants have been approved for participation in quality control inspection: Berks Packing Co., Reading, Pa.; Equity Meat Corp., N. Baltimore, Ohio; Peter Eckrich & Sons, Chicago; Bunge Edible Oil Co., Bradley, Ill.; Von's Grocery Co., El Monte, Calif.; Portiontrol Foods, Mansfield, Tex.; Equity Meat Corp., Folcroft, Pa.; Lauderdale Farms, Florence Ala.; Marv's Restaurant Supply, Brea, Calif.; Rubio Meat Co., Orange, Calif.; Equity Meat Corp., Cohoes, N.Y.; S. Clyde Weaver Co., East Petersburg, Pa.; Alpha Beta Co., La Habra, Calif.; Lund's, Inc., Minneapolis, Minn.; Nelson's Minnesota Farms, Inc., Minneapolis, Minn.; Equity Meat Corp., Nashville, Tenn.; Great American Basic Commodities, Inc., Plover, Wis.; Brakebush Bros., Inc., Westfield, Wis.; Chatham Meat Plant, Warren, Mich.; Jimenez Food Products, Inc., San Antonio, Texas; Cloverdale Foods Co., Mandan, N.D.; Winchester Packing Co., Hutchinson, Kansas.; Wisconsin Beef Industries, Eau Claire, Wis.; Specialties, Inc., Beaver Dam, Wis.; General Meats, Tukwila, Wash.; Vienna Gourmet Corp., Fullerton, Calif.; Slimmery Corp., St. Louis, Mo.; Edwards Sausage Co., Lawrenceburg, Ky.; West Meat Co., St. Louis, Mo.; IBM Foods, Inc., Inglewood, Calif.; Granite State Packing Co., Manchester, N.H.; Village Meats, Norcross, Ga.; Cumberland Gap Provision Co., Middlesboro, Ky.; Anco Meat Co., Seattle, Wash.; Colonial Provision Co., 301 Southampton St., Boston, Mass.; Holland International Foods, Inc., Dawson, Ga.; Ellio's Pizza Div., Purex Corp., Lodi, N.J.; Leon's Fine Foods, Inc., Dallas, Tex.; and H Bar K Meat Processors, Fort Worth, Tex.

VII. Food Safety

SUBJECT: Meat Exports to the European Economic Community

The EEC is in the process of implementing meat import regulations at substantial variance with those of the USDA. Three main issues--the use of hormones, the use of antibiotics and chemotherapeutic drugs, and the "third country" directive--pose major threats to continued U.S.-EEC meat and poultry trade.

Hormones

The EEC member countries are currently divided between those who want a total ban on meat products derived from animals which received growth hormones and those who would consider less restrictive guidelines. In May, the EEC notified USDA that by the end of this year it would adopt a definite position regarding the use of hormones in animals intended for slaughter and export to the EEC. Current indications are that only one hormone, MGA (melengestrol acetate), will be banned from further use in animals destined for EEC markets. However, if the use of growth hormones is banned altogether, the major market for U.S. offal items will be eliminated. This market purchased over \$157 million of offal items in 1980.

Antibiotics

Regulations regarding antibiotics and chemotherapeutic drugs have also been targeted for review. A current EEC proposal would prohibit the sale of meat products containing residues from either antibiotics or chemotherapeutics (e.g., penicillin or sulfa drugs). If a zero-tolerance regulation regarding antibiotics and sulfa drugs is put into effect, it could have an effect on sales of offal items similar to that of a ban on hormones.

"Third Country" Directive

This directive requires all non-member countries wishing to export meat products to EEC member countries to demonstrate that their own slaughter and processing requirements are at least equal to the requirements of the EEC. This, in effect, means that every existing or future EEC requirement is also an additional requirement for U.S. exporters who wish to do business in the EEC. Discussions on meat inspection requirements have been closely intertwined with EEC difficulties in meeting USDA animal health requirements. Each party has submitted a list of proposed changes to the current regulations which would aid the flow of trade. The EEC intends to consider USDA proposals before the end of the year. Recently, EC commission formally submitted a proposal to the EEC council for more flexibility on meat inspection issues that have a significant impact on U.S. meat exports. FSIS, APHIS and FAS will meet in Brussels on Dec. 8-9 to discuss this issue.

New Veterinary Attache in Brussels

In August FSIS assigned Dr. Hyman M. Steinmetz to the Office of the Agricultural Counselor in the U.S. Mission to the European Community in Brussels--an office of FAS. Dr. Steinmetz acts as an on-the-scene veterinary liaison between the U.S. and the EEC, to promote better understanding of U.S. positions and favorably influence EEC veterinary policies. He will also be representing APHIS with respect to animal diseases and current policies.

VII. Food Safety

SUBJECT: Mechanically Processed (Species) Product (MP(S)P) and Mechanically Deboned Poultry (MDP)

Current

On July 31, USDA published a proposal to change labeling, composition and use requirements for MP(S)P. USDA proposed to: change the name of the product; eliminate the labeling requirement for a qualifier next to the name of the finished product to show the presence of mechanically processed product; replace the requirement to show powdered bone content (also next to the product name) with a requirement that the calcium content of the finished product be declared in certain circumstances; establish two categories of product. The first category would have to meet current fat and protein content requirements and could be used in any meat food product where not prohibited by regulation. It could be used at levels higher than now allowed if its calcium content were significantly reduced. The second category would not be subject to any requirements on fat and protein content. However, it could be used only in finished products subject to a regulatory limit on their fat content; it could compose up to 20 percent of the livestock and poultry product portion of these products.

Comments on the proposal were accepted until Oct. 29. USDA expects to complete the rulemaking process in early 1982.

USDA has no current plans to propose changes in regulations affecting mechanically deboned poultry.

Background

The different regulatory requirements for the similar products known as MDP and MP(S)P are based primarily on health and safety concerns raised during development of each product. Both products are processed in a similar way. First, most of the meat is removed from the carcass manually. Then the bones are pushed under high pressure through a fine sieve to retrieve remaining muscle tissue. The resulting product, which contains a small amount of finely powdered bone, is known as MP(S)P or MDP. The bone waste is used for other purposes.

MP(S)P has been the subject of extensive rulemaking. USDA's original proposed approach, which did not involve any special labeling for this ingredient, was successfully challenged in Federal court. A broad-based panel of government scientists subsequently analyzed the health aspects of the product and determined that it could be safely used if properly regulated. On June 20, 1978, FSQS published a final rule naming the product MP(S)P and requiring identification of MP(S)P as an ingredient. Labels must carry the phrase, "With Mechanically Processed (Species) Product" in letters at least one-half the size of the product name. The front label must also carry the statement, "Contains up to ___ percent powdered bone."

MDP--approved by USDA in 1968 after a National Academy of Sciences report found it safe for use--is used in such products as chicken franks and poultry rolls. Bone content of MDP cannot exceed 1 percent. MDP is indicated in a label's ingredient statement by species, such as "chicken." In June 1979, FSQS (now FSIS) made public a report on the "Health and Safety Aspects of Mechanically Deboned Poultry."

VII. Food Safety

SUBJECT: Nitrite in Cured Meat

Nitrite--used to cure bacon, hot dogs, and other meats and poultry has been the focus of attention in recent years. After a thorough review of a 1978 study that suggested nitrite itself can cause cancer in laboratory animals, USDA and the Food and Drug Administration concluded that there is no basis for action to remove nitrite from foods at this time. Nitrite was not given a clean bill of health because of the nitrosamine problem.

The two agencies contracted with the National Academy of Sciences for a review of all existing data on nitrite. Reports on health benefits and risks and reviewing nitrite alternatives are due by Dec. 1981 and Feb. 1982, respectively.

Nitrosamines are a family of compounds including potent carcinogens. They can form in the digestive tract when nitrite from foods combines with naturally occurring amines in saliva or meat. USDA has taken steps to assure that bacon and other cured meats are free of confirmable nitrosamines. Currently, FSIS tests for nitrosamines bacon produced by the common method of "pumping" liquid cures into pork bellies. Because evidence exists for nitrosamine problems in less common types of bacon (made with dry cures or by immersion into liquid cures), USDA is studying the problem further. In June 1980, the agency proposed to extend monitoring to include dry cured bacon.

Nitrite-Free Products: Early in 1981 the Supreme Court, by declining to review an appeals court decision, left intact a USDA rule allowing meat products without nitrite to be marketed under traditional product names. Before the rule, such products could not be called "bacon," "hot dogs" or other traditional names unless they had been cured with nitrite.

The regulation permits the meat industry to label nitrite-free products with traditional names if they are similar in flavor and consistency to traditional nitrite-treated products. Labels must carry the word "UNCURED" as part of the product name and the statement "No Nitrate or Nitrite Added." If no alternative method of preservation--such as canning, pickling, or drying--is used, the labels must also carry the warning "Not preserved--Keep Refrigerated Below 40° Fahrenheit at All Times." Such products should be handled as fresh meat.

VII. Food Safety

SUBJECT: Pizza standard and labeling requirements

Current

In late August, in a response to several suggestions for reducing the regulatory burden on industry, the agency announced it would deny a petition requesting special labeling requirements for cheese in meat pizzas. The agency determined that the economic disadvantages of adopting special labeling requirements would outweigh the advantages. Estimated compliance costs for industry would be between \$3.2 and \$22.4 million, depending on the restrictiveness of regulations.

The agency's labeling policy memo issued in May 1980 is still effective. Labels for pizzas that contain at least one part cheese per nine parts cheese substitute may be approved without qualifying information (the presence of cheese substitute need be declared only in the ingredients list). However, labels for pizzas containing less than one part cheese per nine parts cheese substitute must contain additional qualifying information.

Background

The standard for pizza with meat defines it as a bread-based meat food product with tomato sauce, cheese and meat topping. Although cheese is a necessary characterizing ingredient, no minimum content is specified. Meat pizzas must contain cooked meat made from at least 15 percent raw meat and may contain Mechanically Processed (Species) Product. The standard for pizza with sausage is similar, except that pizza with sausage must contain at least 12 percent cooked sausage or 10 percent dry sausage (such as pepperoni). The current regulation has been in effect for about ten years.

A 1973 proposal to revise the pizza standard never became final. In Dec. 1979, in response to two industry petitions, the agency requested public comments on the need to modify the pizza standard. Jeno F. Paulucci, representing Jeno's Pizza, requested an adjustment in the meat requirement of the standard. The Wisconsin Cheese Makers Association requested more informative labeling for pizzas made with cheese-like substances.

A March 1981 U.S. district court decision upheld the appropriateness of current regulations. The Wisconsin Department of Agriculture had interpreted Federal regulations as requiring pizza to contain all dairy cheese or to have label qualifiers indicating the presence of cheese-like substances. The court ruled that the Federal standard, which pre-empts Wisconsin's, does not require a specific amount of dairy cheese. (The product in question contained 50% dairy cheese and 50% mozzarella cheese substitute.)

VII. Food Safety

SUBJECT: Poultry Exports to the United Kingdom

Cooked Poultry

Effective November 15, 1981, all cooked poultry to be exported to the United Kingdom must originate in U.K.-approved plants. Although some U.S. producers will be able to meet this requirement, many others will not, possibly limiting the 11 million pounds exported annually.

The "counterflow" system--where water and birds flow in opposite directions during chilling--is vital for U.K. approval of any immersion chilling process. However, under current U.K. guidelines U.S. plant operators could cook whole birds, parts, or boneless poultry immediately after postmortem inspection and bypass immersion chilling altogether.

Uncooked Poultry

Since May 1, 1980, the United Kingdom has stipulated that all uncooked poultry imports must originate in U.K.-certified plants. On August 27, 1981, the U.K. announced that effective September 1, 1981 it would restrict imports of uncooked poultry from any country which had Newcastle disease, or whose producers inoculated their birds with Newcastle vaccine containing live viruses. This regulation has halted the annual export of approximately 6 million pounds of uncooked poultry from the U.S. to the U.K.

On September 15 and 16, representatives of FSIS met with U.K. officials to discuss the technical basis for this decision, and to explore ways of meeting this requirement without totally halting U.S. exports--such as not imposing the regulation on U.S. ships' stores and military installations in the U.K., and allowing egg products to continue to be imported. U.K. officials have notified FSIS that egg products may be imported into the country provided they are accompanied by Form PY-200, which does not require a veterinarian's signature as previously requested.

VII. Food Safety

SUBJECT: Poultry Inspection Issues

INTERIM POULTRY RULES--The public had until July 13 to comment on whether two interim poultry inspection rules--one specifying linespeeds for production lines using traditional inspection; the other establishing procedures for alternative inspection procedures--should be made permanent. The Agency is preparing final regulations.

MODIFIED TRADITIONAL INSPECTION (MTI)--One of the interim rules, MTI, eliminates most of the time an inspector would spend positioning the carcass for inspection. As a result, slaughter lines move faster and fewer inspectors are needed. MTI provides large gains in productivity for industry and is just as effective as the previous method. The basic technique will be extended to fowl inspection this year.

MORE EFFICIENT INSPECTION--Working with the industry over the past year, FSIS has tested machinery designed to open poultry carcasses, thus entirely eliminating inspector hand motions. This prototype equipment has not thus far performed at a level comparable to manual operations. If and when it is perfected by industry, "sequenced hands-off inspection" procedures could increase inspector efficiency by 25 percent. Meanwhile, FSIS is working to gain more efficiency with present sequenced poultry inspection--"hands-off" examination of the outsides and viscera of birds; "hands-on" examination of the insides. The procedure, using four inspectors at three stations at a maximum 70 birds per minute, has been tested under the same conditions but with up to 85 birds per minute. The data are now being analyzed.

FLOCK TESTING--FSIS is exploring the possibility of flock testing as a time-saving supplement to poultry inspection. The Agency has contracted with Tuskegee Institute, Tuskegee, Ala., for a feasibility study to predict the disease conditions likely to occur at slaughter. The procedure could enable FSIS to vary the intensity of inspection performed on flocks exhibiting different levels of disease. FSIS is now working with Tuskegee on ways to most effectively analyze the great volume of data being collected.

TURKEY INSPECTION--A feasibility study on a new turkey post-mortem inspection procedure has been completed. Effectiveness tests are underway at a plant in Utah and are expected to be completed November 12.



VII. Food Safety

SUBJECT: Requirements for "Passed for Cooking" Pork

CURRENT

Under 1972 amendments to meat inspection regulations, some swine and cattle carcasses are passed with restrictions because they react to the tuberculin test or have tuberculosis lesions. They may not be used in edible products unless they are first cooked to at least 170° F. for at least 30 minutes. Most of the "passed for cooking" (PFC) meat is used in canned products.

After extensive testing, FSIS decided that more flexible time/temperature requirements can be established. The agency is presently developing a proposed rule to ease present requirements and extend the use of PFC pork and beef to such items as cooked sausages.

BACKGROUND

The regulation setting strict time and temperature levels--which affects approximately 50,000 carcasses annually--creates a considerable burden for small processors and packers lacking the necessary facilities or operations to implement the requirements. These firms have no other choice but to render the carcasses. In light of these serious losses of edible meat, the Agency decided in 1976 to study the possibility of imposing less restrictive time and temperature requirements on PFC meat.

FSIS (then FSQS) funded research conducted by the Science and Education Administration to determine the heat resistance of five serotypes of tuberculosis mycobacteria found predominantly in swine and one found in cattle. Results showed that heating to a temperature of 160° F. for two minutes destroyed the organisms. In addition, to confirm the accuracy of the study results, FSIS conducted a "challenge test" study of hotdogs inoculated with various serotypes of mycobacteria obtained from swine tissues. Both studies have convinced FSIS it can modify its regulation.



The Administration is developing a comprehensive position on food safety with input from the 3 agencies with food regulatory responsibilities--FSIS, FDA, and EPA. A special sub-cabinet council, chaired by Asst. Secretary of Agriculture Millan, is studying proposed changes in the food safety laws. Also on the Council are representatives from HHS, FDA, EPA, and Dr. Donald Houston, Administrator of FSIS. The Council's recommendations will go to the President's Cabinet Council on Human Resources. On all food safety matters, Secretary Block will co-chair the Cabinet Council with Secretary Schweicker of HHS.

The sub-cabinet council is reviewing legislative proposals as well as other changes the Administration considers necessary. The Administration will present its position to Congress at a joint hearing of the Senate Agriculture Committee and the Senate Labor and Human Resources Committees on Nov. 17.

The hearing will focus on a bill proposing changes in the Food, Drug and Cosmetic Act; the Federal Meat Inspection Act; the Poultry Products Inspection Act; and the Egg Products Inspection Act. It was introduced with the support of a coalition of industry groups and was jointly referred in both Houses to the Agriculture Committee and the committee dealing with health issues. The bill is sponsored in the Senate by Sen. Orrin Hatch (R-Utah), chairman of the Labor and Human Resources Committee, and Sen. Jesse Helms (R-N.C.), Agriculture Committee chairman, and in the House by Rep. Kika de la Garza (D-Tex.), Agriculture Committee chairman, and Rep. William Wampler (R.-Va.), ranking Republican.

Key points in the legislative proposal are:

- a focus on the use of risk assessment and on procedures for the use of outside scientific expertise in the regulation of food and color additives, food contaminants and animal drugs.
- agency decisions on food safety would consider whether the food substance presented a significant risk to humans.
- use of a more flexible standard for the Delaney clause.
- in the case of additives which appear to have a significant risk but which have been widely used in the past and for which there is no practical substitute, agencies could consider factors other than risk, such as the consequences of prohibition including nutritional value, consumer cost, availability and acceptability of the food and the use of the additive for dietary and other health-related purposes.
- "basic and traditional foods" and "food contact substances" are treated less strictly than food additives.
- revised procedures for establishing tolerance levels for substances in food which may be harmful but are required or cannot be avoided in production.

On Oct. 5, 36 consumer and health organizations announced formation of the Coalition for Safe Food to oppose the legislation. Co-founded by Community Nutrition Institute, Center for Science in the Public Interest and Public Citizen's Congress Watch, the group opposes "weakening" the Delaney Clause.

The Administration will also propose changes in the "continuous inspection" provisions of the meat and poultry inspection laws. Since the laws were passed, the industry has grown and changed enormously, and the responsibilities of inspectors have expanded. In some areas, we need more inspection and in others, we need less. USDA is preparing a legislative proposal to provide the Secretary greater discretionary authority in deciding the intensity and level of inspection in processing plants.



VII. Food Safety

SUBJECT: Salmonella in Roast Beef

On November 4, the Food Safety and Inspection Service was informed by the New York State Department of Health that it was going to issue a press release recommending "that people who purchase pre-cooked roast beef recook the beef to an internal temperature of 145 degrees Fahrenheit before eating it."

As of noon on November 6, the press release has not yet been issued and there are indications that it may not be until Monday, Nov. 9.

In addition to the press release, FSIS has been informed that New York State officials will send a letter to the Secretary of Agriculture requesting a meeting on salmonella in roast beef.

The proposed press release and the letter were prompted by recent outbreaks of salmonellosis (food poisoning) traced to roast beef produced by Federally-inspected plants in Philadelphia (V. Giordano Co., and Vee Cee Provisions, Inc.) and in Albany, N.Y. (State National Provision Co.). Prior to these outbreaks in the Northeast Region, the last salmonella problem attributed to roast beef occurred in 1978 and involved the Holiday Provision Co., Philadelphia.

Before the 1978 outbreak, there were no USDA temperature requirements for rare roast beef. Subsequent to that outbreak, the meat inspection regulations were amended and a special bulletin was issued to outline time-temperature requirements for cooking roast beef.

FSIS officials believe that current regulations and guidelines, if followed properly, are adequate to control salmonella. Preliminary evidence indicates that inadequate cooking temperature was not the primary cause of the problem. The outbreaks appear to be related to improper handling of the product after it has been cooked or by improper refrigeration after it leaves the plant.

Corrective actions are being taken by the inspection program at the national and regional level, including the following:

*Emphasis to all levels of field supervisors on the importance of following the present regulations and guidelines.

*Development of a new educational campaign aimed at inspectors and plant operators to stress the importance of sanitation in inspected plants, including development of special training materials on sanitation and handling practices designed for all inspection employees.

*A review by Regional officials of processing and handling procedures of all 104 roast beef processing plants in the Northeast Region.

*Plans for a special review of roast beef production and handling practices across the country by the Administrator's Review and Evaluation Staff.

*A review of present regulations and guidelines to improve and clarify them.

*Development of a nationwide monitoring program of roast beef samples to assure that standards are being met.



VII. Food Safety

SUBJECT: Slaughter Inspection Reforms

Although the inspection workload has increased since 1978, employment of inspection personnel has actually decreased during that period. FSIS has been able to achieve this reduction by making program improvements--most notably, by implementing a series of new inspection procedures. The new slaughter inspection procedures, along with voluntary quality control inspection for processed products, will make the program more efficient and will help control rising inspection costs, without reducing industry productivity or consumer protection.

Historically, the inspection program has operated under "continuous" inspection. Now, however, changes in processing and slaughter technology have reduced the number of inspectors required. USDA is now looking into legislative proposals that would allow greater discretionary authority with regard to assigning inspection resources to processing and slaughter plants.

On August 27, FSIS published an interim regulation (with comments due October 27) on new swine inspection procedures, which will permit increased inspector productivity with no loss in effectiveness. One result of the changes will be a reduction of about 110 inspector positions. Aided by a mirror, swine inspectors can now observe all sides of the carcass without turning it. Further time savings will come from greater reliance on visual inspection of the internal organs, where such diseases of the spleen as tuberculosis and abscesses, as well as lesions and abscesses in the liver can be detected. In plants where the procedures are used, three inspectors can inspect up to 506 hogs per hour, compared to the 337 per hour inspected prior to the new rule.

FSIS is currently testing similar cattle post-mortem procedures in an Arizona plant. A fifth and final test, on mature cattle, is tentatively scheduled for November 30 to December 18 in Michigan. Meanwhile, FSIS is effecting some savings by implementing revised cattle post-mortem staffing standards for current inspection methods. The standards were published July 14 as an interim rule, with comments due September 14. Agency officials are presently evaluating the comments. By distributing workloads more efficiently, the standards have enabled FSIS to reduce by approximately 40 the number of cattle inspectors needed nationwide.

In a related action, the National Joint Council of Food Inspection Locals has asked the Agency for more relief time for meat and poultry slaughter inspectors. They currently get two relief breaks in addition to all company breaks.

A redesigned livestock disease reporting system is nearing implementation. The new system will provide a better estimate of the incidence of animal diseases in food animal populations.



VII. Food Safety

SUBJECT: Sodium labeling and research

Manufacturers of processed meat and poultry products voluntarily declare the amount of sodium in their products. However, sodium labeling is required only under certain circumstances. For example, if the meat or poultry product label claims that a food is "lower in salt," "lightly salted" or for persons on sodium-restricted diets, sodium information is required. It is almost always listed in milligrams per serving and in milligrams per 100 grams.

Although sodium is an essential nutrient with important functions in the body, most people consume much more sodium than they need to survive.

On April 14, in testimony before the House Science and Technology Subcommittee on Investigations and Oversight, Assistant Secretary McMillan announced a four-point sodium program. USDA will:

- encourage industry to increase sodium labeling and to market low- and reduced-sodium foods;
- begin a research program to develop safe and palatable reduced-sodium meat and poultry products;
- provide information to the public about sodium;
- monitor the sodium content of products under FSIS jurisdiction.

USDA has taken several steps to implement the program. FSIS has formed a task force to make recommendations on sodium policy. Assistant Secretary McMillan has written industry associations, asking them to increase voluntary sodium labeling and encouraging them to suggest alternative labeling formats and innovative ways to get sodium information to the public. He offered USDA cooperation in expanding research to (a) reduce the sodium content of processed products and (b) find safe sodium substitutes.

McMillan has also written the director of the Agricultural Research Service (formerly the Science and Education Administration) suggesting research in reducing the sodium content of processed products, while maintaining product safety and quality. He suggested that such research be given a high priority. A draft research request identifying specific research needs is moving through agency clearance. (ARS and FSIS annually agree on research that ARS will conduct for FSIS.)

On August 3 and 4 FSIS participated in an ARS-sponsored workshop for industry, government and academia on sodium in processed foods.

FDA and FSIS are exploring the possibility of producing a joint publication on sodium to complement USDA's "The Sodium Content of Foods."



VII. Food Safety

SUBJECT: Sulfonamide Residues in Pork

Residues of sulfa drugs, used in swine to control certain infections and to promote growth, had been a national problem until USDA and industry conducted an 18-month campaign, ending in October 1979. The cooperative effort succeeded. It pointed to feed as the source of contamination for sulfa and educated producers and mill operators as to how the problem can be prevented. Violations declined from a 14 percent national high in July 1978 to 4.6 in October 1979. Today, the nationwide figure remains near that low.

Since the campaign, two companies (American Cyanamide and Rochelle Labs) have developed a granulated form of sulfonamide for use in feeds. Their studies show that the granulated form substantially reduces carryover at the mill from batches of medicated to unmedicated feed.

Until that type of sulfa has proven to reduce the problem, FSIS is continuing to concentrate on cooperative and educational efforts to control the residue problem so that producers can use the drugs safely. In several states where violations remain high, USDA has cooperated with State officials and with industry to conduct local educational efforts. Afterwards, FSIS has increased sampling to "spotlight" areas and see if the problem has been corrected.

For example, a localized effort was mounted in Georgia. After the educational program, FSIS intensified monitoring there. As a result, violations dropped dramatically (from about 10 to 3.2 percent) for animals moving directly from producers to slaughter. But in that State violations remain high for swine moving through public markets, where producers are not identifiable. FSIS is examining other states to determine whether the situation in Georgia is typical.

In September, spotlighting was done in six states and results are now being analyzed. The six states are Alabama, Indiana, North and South Carolina, Tennessee and Texas.

Basic to the sulfa residue effort is a reliable analytical test for sulfa. FSIS scientists have developed new chemical tests that are accurate and economical for use in laboratories and are developing a microbiological test to screen animal tissues for sulfa at the slaughterhouse.

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VII. Food Safety

SUBJECT: Poultry Inspection Issues

INTERIM POULTRY RULES--The public had until July 13 to comment on whether two interim poultry inspection rules--one specifying linespeeds for production lines using traditional inspection; the other establishing procedures for alternative inspection procedures--should be made permanent. The Agency is preparing final regulations.

MODIFIED TRADITIONAL INSPECTION (MTI)--One of the interim rules, MTI, eliminates most of the time an inspector would spend positioning the carcass for inspection. As a result, slaughter lines move faster and fewer inspectors are needed. MTI provides large gains in productivity for industry and is just as effective as the previous method. The basic technique will be extended to fowl inspection this year.

MORE EFFICIENT INSPECTION--Working with the industry over the past year, FSIS has tested machinery designed to open poultry carcasses, thus entirely eliminating inspector hand motions. This prototype equipment has not thus far performed at a level comparable to manual operations. If and when it is perfected by industry, "sequenced hands-off inspection" procedures could increase inspector efficiency by 25 percent. Meanwhile, FSIS is working to gain more efficiency with present sequenced poultry inspection--"hands-off" examination of the outsides and viscera of birds; "hands-on" examination of the insides. The procedure, using four inspectors at three stations at a maximum 70 birds per minute, has been tested under the same conditions but with up to 85 birds per minute. The data are now being analyzed.

FLOCK TESTING--FSIS is exploring the possibility of flock testing as a time-saving supplement to poultry inspection. The Agency has contracted with Tuskegee Institute, Tuskegee, Ala., for a feasibility study to predict the disease conditions likely to occur at slaughter. The procedure could enable FSIS to vary the intensity of inspection performed on flocks exhibiting different levels of disease. FSIS is now working with Tuskegee on ways to most effectively analyze the great volume of data being collected.

TURKEY INSPECTION--A feasibility study on a new turkey post-mortem inspection procedure has been completed. Effectiveness tests are underway at a plant in Utah and are expected to be completed November 12.



Costa Rican Meat Imports

An FSIS task force is stationed in Costa Rica to review the effectiveness of new inspection measures recommended by USDA after the Department removed the country's four meat plants from a list of approved exporters to the U.S. The delisting action--effective March 26--was taken because USDA's Office of the Inspector General uncovered irregularities in some health certificates accompanying product to the U.S. and efforts to obtain additional information from the Costa Rican government had been only partially successful.

The U.S. also had received improperly identified product as well product containing soil, and in one instance, two boxes containing soil rather than meat. Foreign soil has been shown to be a carrier of plant pests and diseases not known to occur in the U.S. These two boxes of soil could have led to the introduction of a plant pest or disease which in turn would lead to significant crop losses.

In light of the great economic difficulties faced by the Costa Rican government, USDA has pledged to help that country to resolve the problem and resume normal trade at the earliest possible date. To further that effort, a USDA team that included Inspector General John Graziano visited Costa Rica in late March.

The Federal Meat Inspection Act requires that foreign countries exporting meat to the U.S. impose inspection requirements that are at least equal to those imposed on domestic plants. In 1981, the U.S. imported approximately 67 million pounds of meat from Costa Rica--less than a quarter of 1 percent of our red meat supply.

In a separate matter, the USDA investigation also revealed the clandestine movement into domestic channels of adulterated meat which had previously been refused entry into the U.S. While this meat represents no significant human health hazard, its importation is a violation of law and resulted in the Department implementing several steps to preclude the possibility of similar illicit actions in the future. (These steps include tightened procedures used in marking, controlling, and re-exporting all product that is refused entry into this country, with FSIS assuming full physical control over the product.) A Miami, Fla., Grand Jury is investigating the problem.

USDA Actions regarding Safe Cooking of Pork

) April 2, USDA issued a press release advising consumers and restaurateurs to make certain all fresh pork products are cooked to a consistent temperature throughout of 170° F. Thorough cooking is essential because research shows that trichinae can survive in relatively "cold" spots remaining after fast cooking processes such as microwave cooking. Prior to issuing the release, USDA officials informed pork and meat industries and microwave associations of the latest findings and said that a release would be issued the following day.

The release stated that the incidence of trichinosis in swine and humans is extremely low in this country--each year approximately one-tenth of one percent of the 80 million swine slaughtered in Federally-inspected plants are infected, and only 100 to 120 clinical cases are found in humans. It also said that people may want to cook fresh pork by methods other than microwaving to assure there are no live trichinae.

Last May, USDA issued a similar release based on preliminary research findings. The new statement was made because the research has been replicated and expanded. ARS scientists found that trichinae can survive when pork chops from experimentally-infected swine were cooked in institutional microwave ovens to 170° F., to 180° F., or even if they were deep-fat fried after being partially cooked in that type of microwave oven (which is more powerful and cooks somewhat faster than models sold for home use). The scientists think that the uneven heat distribution can leave areas of the meat cold enough for the parasites to survive even though other parts reach adequate temperatures.

In addition, ARS researchers are nearing completion of studies that reconfirm that trichinae organisms are destroyed at a temperature of 137° F. in the laboratory and in regulated commercial meat processing facilities where product is cooked slowly at carefully maintained temperatures.

Dr. Zimmerman, of Iowa State University in Ames, who heads a second research team that has independently uncovered the microwave problem, was scheduled to meet with representatives of the microwave industry April 7 to explain his findings to them. (He has been in contact with their representatives for some time.) His work--using microwaves made for use in the home--will appear in a forthcoming issue of the Journal of Food Protection.

Prior to the latest USDA release, the issue had recently received media attention. On Sat. March 27, Marian Burros, on local Washington television, gave an update on the Iowa State research and also emphasized the necessity of checking internal temperature of microwaved pork. She concluded her news report with the comment that Zimmerman would not cook a pork roast in a microwave oven. Also, on March 9-11, there was a flurry in the media on the subject after an item appeared in VETERINARY PUBLIC HEALTH NOTES, published by the Centers for Disease Control in Atlanta. The CDC story had analyzed the studies done last year by ISU and ARS scientists and pointed out the importance of measuring the temperature of meat cooked in a microwave because "the information that is lacking for microwave ovens, concerns the power setting and time necessary for all parts of pork muscle tissue to achieve the temperature necessary to kill the larvae." But the ATLANTA CONSTITUTION story said "Microwave ovens should not be used to cook any kind of meat." In response, the National Pork Producers Council stated that "consumers must use a meat thermometerto see that roasts are evenly cooked at 170° F."

) Last year, a congressional hearing on the subject--tentatively scheduled for June 1981 before a House Subcommittee of the Committee on Science and Technology--was postponed indefinitely.

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VIII. Food Assistance Program

Food and Nutrition Programs, particularly the Food Stamp and the School Lunch Program, will remain as the cornerstones of food assistance for this Administration.

LEGISLATIVE CHANGES REQUIRED BY THE RECONCILIATION ACT OF 1981

Subsidy Levels

Cash subsidies and commodity support for meals served to children who pay the full price or reduced prices for their school meals in the National School Lunch Program, School Breakfast Program and the Child Care Food Program have been reduced. These changes are expected to save \$767 million in fiscal 1982.

New legislation targets benefits to children most in need. For this reason children who can afford to are paying more for their meals.

Reimbursement to school systems for paid meals has been cut by a third and reduced priced meals cut by a fifth. Free meal reimbursement is about the same as it would have been had the law not been changed.

The amount authorized for the Child Nutrition programs in Reconciliation Act (not including WIC and Milk Programs) is \$3.212 billion for FY 82. This is a decline of \$1,395.1 billion from \$4.514 billion which would have been authorized under the old law.

Eligibility Changes

The law lowered the upper income limit for families of children eligible for reduced priced meals. For a family of four, the maximum annual income allowed dropped from \$17,560 to \$15,630.

Legislation also lowered slightly the income eligibility limit for free meals. For a family of four, the annual income limit dropped from \$11,520 to \$10,990. These changes are expected to save \$227 million in FY 82.

Verification Changes

The new law provides for schools and institutions to verify information on a sample of free and reduced priced meal applications. Starting this year applications require the social security number and source of income of all adult household members.

Also, since investigations have shown that some households may be intentionally understating their incomes, the letters sent to parents with applications included only the eligibility levels for reduced priced, not free meals.

The Act includes several measures to improve program management and efficiency. So while it provides for verifying information on a sample of applications, it removes detailed cost accounting as a consideration in reimbursing schools for the meals they serve.

The new law also instructs USDA to change other program regulations to save on costs of running child feeding programs at the local level.

IMPACT OF RECONCILIATION ACT

School Dropouts

There appear to be very few schools and school districts dropping out of the program. Based on information covering 48 states we have identified 466 schools that have discontinued the school lunch program. This compares closely with a preliminary national estimate of about 400 school dropouts prepared by the American School Food Service Association. There are currently nearly 94,000 schools in the school lunch program. A drop of 400 schools represents about one-half of one percent. Some of the reasons for dropout that we know of now includes decreased subsidies, lower enrollments that forced school closings, private schools no longer eligible because of tuition in excess of \$1,500 (Reconciliation Act) and losses in State and local revenues.

For those estimated 466 public schools that dropped out of the program we estimate an enrollment of about 275,000 children. It is not clear if all children were participating in the program before the school dropped the program.

Student Participation

While firm data are not yet available, state school food service directors have told us that they expect lunch price increases to result in participation declines averaging 15 percent. A 15 percent reduction is consistent with our estimates reported to Congress during consideration of this legislation. The report estimated an 8 percent decrease in paid participation for every 10 cents increase in price.

We also have very preliminary information for participation in the month of September from our routine reporting system. When we analyzed the reports, excluding a few states that submitted estimates based on last year's participation, we found that total average daily participation has declined about 11 percent. Within that total paid participation has declined 16.2 percent, reduced price participation has declined 12.3 percent, and free meal participation has declined 3.2 percent. Note that these figures are subject to change as states revise their claims over the next several months.

McDonalds Versus, The School Lunch Price

McDonalds price: plain hamburger - 51 cents; small french fries - 47 cents; small carton of milk - 37 cents; Total - \$1.35.

An average cost of a similar lunch in an elementary school would be about 95 cents with fruit.

McDonalds, like school cafeterias, has been hit by inflation too and is not so cheap anymore. The problem is that the general public expects us to provide even better food than fast service restaurants do at a cheaper price. Very few parents realize that school lunches are subsidized by the government.

One of our jobs may be in convincing the public that the difference between the McDonalds lunch and the school lunch price is going to have to come from the parents. This is true unless they want to pay for it in more taxes in order to support the federal subsidy the schools receive.

USDA Efforts to Help Schools Cope With Legislation

Regulatory relief and technical assistance are being offered to school feeding program managers to help ease administrative burdens and encourage more efficient operations. When fully implemented, these improvements will simplify many facets of program administration. For example, school districts would be relieved of the requirement that they identify the allowable cost of producing each type of meal. Cost savings in both time and money should be realized in "paperwork."

Effect on Program Efficiency

As a result of program changes, most of the States responded that efficiencies in local food service operations and in the lunch room are being encouraged. These local initiatives clearly support the Administration's position, that the best decisionmakers are those closest to the scene. Provided flexibility in managing their own programs, School Food Service Authorities can live within budget constraints. The most common kind of changes that appear to be happening are:

- economies in the amount of labor used, including decreasing the number of hours that each person works;
- emphasis on better portion control;
- eliminating desserts as part of the meal pattern;
- increased dependence on a la carte sales to subsidies operating losses;
- less menu variety and menu choice offered to students; and
- more repetitive menu cycles based on student preference.

Also, State and School Food Authorities have indicated a desire to use more bonus commodities, particularly dairy products, which of course we have been emphasizing. Procuring and distributing surplus foods also continue to be a basic function of FNS. In a few systems some less common types of changes are occurring. These include the following:

- unprofitable schools have been dropped from the program;
- several districts share one food service manager;
- districts make cooperative food purchases; and
- districts change from on-site preparation of meals to vended meals from food service management companies, or to central preparation of food with distribution to satellite schools.

Price Increases

The price increases that have occurred for paying children have been in the 5 to 50 cent range, with an average increase of about 15 cents higher than last year. The average increase of 15 cents is what we would have expected given the 11 cents less in federal subsidy to non-needy students. Some price increases are also due to decreases in subsidies from state funds and normal increase in meal price due to inflation. California, Florida and Pennsylvania seem to have higher than average increases.

MEAL PATTERNS

Meal patterns are being reviewed at this time. We hope to work out something that is both flexible and cost effective.

Reduced Portions

The Department's primary purpose for proposing to reduce portion sizes in school lunches was an attempt to allow schools to save money. Hand-in-hand with this goal was the idea that by saving money, USDA could help schools to keep their programs going. Many school service directors also have been concerned about the high incidence of plate waste in school cafeterias. They reason that by cutting back on portion size, schools could also cut back on food wasted by children who eat only a small amount of their meal, and throw the rest away.

"Ketchup is a Vegetable"

The Department never intended, nor expected, that school food service programs would rely on ketchup, pickle relish or ANY type of condiment, to provide nutrition for a growing child. Unfortunately, different segments of the public misinterpreted the intention behind the proposed regulation. It was proposed that for the purpose of flexibility in menu planning and crediting of foods to meet meal pattern requirements, tomato paste in combination with an acceptable vegetable could be used to count toward meeting the vegetable requirements.

Managers of food programs are professionals and will use their expertise in nutrition and management skills to provide nutritionally balanced meals.

PROTECTING THE INTEGRITY OF THE SCHOOL LUNCH PROGRAM

Some households may intentionally understate their income in order to qualify their children for free and reduced priced lunches. We learned this from such sources as public complaints and inquiries, audits and investigations carried out by the Inspector General, and feedback from State and local officials. In administering a program of this magnitude, controls must be established to prevent abuse in small increments.

We are concerned about the vulnerability of the National School Lunch Program to fraud, abuse and overclaims and other improper practices. In recognition of the difficulties inherent in nationwide program monitoring, we have developed a tighter management system. The Assessment, Improvement, and Monitoring System (AIMS) prescribes minimum standards for program performance. It also sets the frequency and scope of reviews and follow-up reviews.

In order to strengthen State management, and fraud detection, FNS continues to work with the USDA Office of the Inspector General (OIG) to strengthen program monitoring by our Regional and National Offices. We made recommendations to the OIG for problem areas and particular States to be included in their Annual Audit Plan. Corrective action on deficiencies disclosed by audit help with the collection of amounts determined to be due the Federal Government.

COMPETITIVE FOODS

We are currently reviewing all of our program regulations to determine where changes may be appropriate.

WIC AND CSFP BUDGETS

These programs have been provided funds to maintain current caseload levels.

THE SUMMER FOOD SERVICE PROGRAM AND SPECIAL MILK PROGRAM

The law retains the summer program. It requires that it operate only in areas where one-half--instead of the former one-third--of the households in the geographic area served by the program have incomes at or below 185 percent of poverty. It also limits sponsors to schools and camps and public sponsors. These changes are expected to save \$71 million.

Special Milk is limited to schools and institutions without federally subsidized food programs. This change is expected to save \$94 million.

IX. Food Stamp Program

HOW DOES THE FOOD STAMP PROGRAM WORK UNDER THE CURRENT LAW?

1. How is the Food Stamp Program Administered?

The Food Stamp Program is administered by the Federal Government through the U.S. Department of Agriculture and State public assistance agencies operate the program through their local offices. The program is operated in accordance with Federal law as implemented by regulations which are the same nationwide.

2. Who is Eligible?

The program provides monthly benefits to low income households to help them purchase a nutritionally adequate diet. In order to qualify for the program, households must meet eligibility criteria and provide proof of their statements about household circumstances. U.S. citizens, aliens admitted permanently and legally, and certain other legal aliens may qualify. The criteria for participation includes the following requirements; able bodied applicants must meet certain work requirements; all households may have up to \$1,500 worth of countable resources; households of two or more people may have up to \$3,000 if at least one member is age 60; and only households with gross incomes at or below 130 percent of the poverty line may qualify for food stamps. The income limits vary by household size, are based on the Office of Management and Budget's poverty line are adjusted each July to reflect changes in the cost of living.

The gross income limits for households (except elderly or disabled) from July 1, 1981 to June 30, 1982, are:

<u>Household Size</u>	<u>Maximum Gross Monthly Income Limits*</u>	<u>Maximum Gross Annual Income</u>
One-person household	\$ 467	\$ 5,603
Two-person household	617	7,397
Three-person household	766	9,191
Four-person household	916	10,985
Five-person household	1,065	12,779
Six-person household	1,215	14,573
Seven-person household	1,364	
Eight-person household	1,514	
Each added person	+150	

* For the 48 contiguous States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

DEDUCTIONS: Gross income means a household's total, nonexcluded income, before any deductions have been made. Net income means gross income minus the allowable deductions. The allowable deductions for nonelderly and nondisabled households are:

- An 18 percent deduction from earned income.
- A standard deduction for all households. This deduction is set at \$85.
- A combined deduction for actual dependent care costs and/or excess shelter costs to reflect changes in the cost of fuel, utilities, and shelter. This deduction cannot exceed \$115.
- Medical expenses above \$35 are deducted for elderly or disabled recipients, as are shelter costs beyond the \$115 maximum.

3. How much are participants eligible to receive?

Food Stamp households are issued an allotment of food stamps based on the size of the household, the household's income, and the cost of the Thrifty Food Plan for that household size. The Thrifty Food Plan is a diet for economically feeding a family of four persons and it is adjusted by the Department for other household sizes. The food stamp allotments issued to households are updated periodically to reflect changes in the cost of purchasing this diet plan. Current allotment levels for various households sizes follow:

<u>Family Size</u>	<u>Allotment (maximum)</u>
1	\$ 70
2	\$128
3	\$183
4	\$233
5	\$277
6	\$322

The average monthly benefit per person in August 1981 is estimated to be approximately \$40 or \$89 for the average household.

4. What About Students and Strikers Participating in the Program?

Recent changes in the Food Stamp Act have made most college students ineligible for food stamp benefits. All students are ineligible unless they are supporting dependents, are elderly or disabled, or are working at least 20 hours a week (or working under a work-study program) to put themselves through school. Students now represent two-tenths of one percent of the food stamp caseload, or 47,000 persons.

5. Who is Required to Work and How Successful Have the Work Requirements Been?

All persons between the ages of 18 and 60 who are physically and mentally fit are required to register for work and accept suitable employment if it is offered. The only exceptions to this rule are the exemptions for the following persons: (1) Those who are complying with the work requirements of the work incentive program under Title IV of the Social Security Act; (2) a parent or other household member responsible for the care of a child under 12 or someone who is incapacitated; (3) a member of a household responsible for the care of a child where there is another household member who is required to work register; (4) a student in compliance with the work rules which apply to students; (5) persons in receipt of unemployment compensation; (6) participants in treatment programs for drug addiction or alcoholism; and (7) those employed at least 30 hours per week or receiving a wage equal to thirty times the minimum hourly rate.

The Department of Labor has released figures which reveal that in Fiscal Year 1980, 1.7 million persons were work registrants, 12.3 percent of the overall caseload. Of the number of work registrants, 47.3 percent or 411,000 persons were referred to jobs and approximately 50 percent of those referred were placed. Thus, of the total number of work registrants, 11.4 percent or 196,000 persons were actually placed in jobs. Under recently issued regulations, more job referrals will be made and persons who register for and are considered ready to work by the Department of Labor will be required to search actively for jobs.

6. What is the Food Stamp "cap."

The cap is a legal limit on spending in the Food Stamp Program. A cap was applied to program spending for the first time in the 1977 law. At that time a limit was placed on spending for the fiscal years 1973 through 1981. The cap for FY 82 is now being decided by Congress. The Administration is requesting \$11.3 billion for FY 82. In recent years, program spending has increased due to the effects of inflation, unemployment and changes to the 1977 law which led to increased participation and permitted households with high incomes to take advantage of the deduction structure to gain eligibility. Exhibit 1 shows the growth in participation from 1971 to 1980 and its relationship to economic changes and amendments in the legislation. Because program costs have increased, the spending limit has been exceeded in recent years and Congress has had to appropriate additional funds to continue program operations.

7. How Much Has the Program Cost Over the Years and What is its Likely Cost Next Year?

The program began as a pilot project in 1963 and was authorized as a permanent program to operate at State option the following year. Expansion of the program occurred most dramatically after 1974 when Congress required all States to offer food stamps to the poor. Program growth has continued since then and participation peaks in periods of high unemployment, inflation, and recession.

Exhibit 1

The following chart displays the growth in program participation and program costs from 1971 through 1982:

Food stamp program: Number of persons participating, value of bonus coupons, and average bonus per person, fiscal years 1971 - 1982.

Fiscal Year	Persons participating, average during year (in millions)	Annual bonus value of coupons (in billions)	Annual average monthly bonus per person	Total costs (in billions)
1971	9.4	\$1.5	\$13.55	\$1.5
1972	11.1	1.8	13.47	1.9
1973	12.2	2.1	14.37	2.2
1974	12.8	2.7	17.62	2.8
1975	17.0	4.3	21.42	4.6
1976	18.5	5.3	23.85	5.6
1977	17.0	5.0	24.71	5.5
1978	16.0	5.1	26.83	5.6
1979	17.7	6.4	30.51	6.9
1980	21.1	8.7	34.35	9.1
1981	22.5	10.6	39.39	11.3
1982 (est.)	21.7	11.2	42.75	12.1

IX. Food Stamp Program

INITIATIVES TO CURB FRAUD, WASTE AND ABUSE IN THE FOOD STAMP PROGRAM

The Department of Agriculture's Food and Nutrition Service (FNS) is making major strides in improving Food Stamp Program management in order to reduce incidence of fraud, waste and abuse. Through a number of different devices including legislation, regulations, studies and demonstration projects, FNS has taken the initiative to ensure a well-managed Program.

I. Legislation - 1981

The Department initiated program tightening legislative changes which are included in the Omnibus Reconciliation Act of 1981, as follows:

- A. Retrospective Accounting of most household's income by October 1983. Income will be calculated on a retrospective basis, thereby providing a more realistic picture of a household's income circumstances.
- B. Periodic Reporting of income and other factors affecting eligibility will be required of most households. This should result in more accurate eligibility and benefit determinations.
- C. First month benefits will be prorated from the actual day of application. The allotment will correspond more directly to actual need in the initial month of application.
- D. Disqualification penalties for fraud and misrepresentation will now include any action that violates a State statute related to abuse of the program.

Other legislation pending in Congress includes the following Administration-sponsored provisions:

- A. Mail Loss Tolerance Levels which would designate at what point FNS will no longer be responsible for costs of mail losses. Mail issuance is an area of potential abuse, and we believe this provision could curb losses in the mail issuance process.
- B. Eliminate bars and party stores, which under current law can be approved as retailers and accept food stamps.
- C. Expedited service is limited to those households judged to be in need of immediate aid. Gross income and liquid costs levels would be established.

II. Regulations

- A. Omnibus Reconciliation Provisions. Rules to implement the cost savings provisions of the Reconciliation Act have been issued. Regulations implementing the remaining provisions will be issued shortly.

- B. Verification. New rules were fully implemented last spring to clarify verification standards for determining eligibility and benefit levels. They further increase State agencies' authority to verify information in a number of areas.
- C. Coupon and ATP Replacement Procedures. This rule establishes new guidelines to prevent losses due to fraud and abuse in the replacement of nondeliverable, stolen, or destroyed coupons. The final rule was published October 9.
- D. Photo ID's. Final regulations were issued October 9 requiring the use of photo ID's in areas where duplicate issuance is a problem.

State welfare agencies will be required to institute photo ID system within a year in 17 food stamp project areas with 100,000 or more recipients, unless they get an exemption from USDA's Food and Nutrition Service. Smaller food stamp project areas may also be required to install photo ID systems if the FNS and the USDA Inspector General's Office finds it useful to protect program integrity.

III. Demonstration Projects

The Department has several demonstration projects underway which focus partially or totally on the elimination of fraud, waste and abuse in the program. These include the following:

- A. Workfare. This congressionally mandated project, conducted jointly with the Department of Labor, tests the feasibility of requiring certain food stamp recipients to work off their benefits in public service type jobs.
- B. Work Registration/Job Search. This project is also conducted jointly with the Department of Labor and will test several models for accomplishing the work registration requirement. This project will control waste and abuse in the program by deterring or eliminating able-bodied persons from the program who are unwilling to accept or actively seek employment. Projects operated solely by FNS are scheduled to begin operation this month.

Additional projects addressing concerns of fraud, waste and abuse are under consideration as part of the 1981 demonstration project initiative. These projects include:

- C. Undocumented Aliens and Food Stamps. This project would focus on the cost, benefits, and results of various screening techniques used to detect undocumented aliens applying for food stamps, and determine the extent to which they incorrectly pass through the screen and illegally participate. A second phase of this project which would test more sophisticated screening techniques via a screening model resembling current IRS sampling procedures could be considered for funding after results of the original demo are reviewed.
- D. Analysis of Computer Aided Wage Matching Techniques. This project involves a study to evaluate overall costs, benefits, and comparative merits of various employer-reported earnings data.

IV. Ongoing Administrative Activity

- A. Special Task Force on Waste and Fraud. A preliminary report on "Fraud, Waste, Error, and Abuse in the Domestic Food Assistance Programs" include an estimate that USDA loses about \$1.3 billion annually through problems in programs.

"This waste and fraud is not only a drain on the U.S. Treasury, but it also deprives the truly needy citizens of this nation," Block said. "We can not and will not allow this to continue."

In September, Attorney General William French Smith created a special task force in an attempt to intensify such investigations. That task force includes the USDA, the Justice Department, the Federal Bureau of Investigations, the Secret Service, and other Government agencies.

- B. Monitoring Food Stamp Redemptions. Authorized retailers and wholesalers redeem food stamps through banks by presenting the food stamps and a computer card called a Redemption Certificate (RC) which reflects the value of the stamps redeemed. Studies have shown that the value of the stamps ultimately processed by the Federal Reserve Banks is appreciably more than the value reflected on the submitted redemption certificates. While there may be legitimate reasons for such discrepancies, the possibility for fraud on the part of redeeming stores or even banks cannot be ignored. Therefore, we are focusing added attention to the redemption process to improve our ability to detect fraud.

In April, we began a test of a redemption process which, for the first time, would require banks to verify the amount of food stamp deposits by retailers and wholesalers to the amount reflected on the supporting RC's. This test process would allow for a further verification at the Federal Reserve level. This RC, which employs more advanced computer technology, promises to lessen the chance of erroneous entries and make falsification more easily detectable. The test will run through most of the calendar year 1981.

- C. Retailer Investigations. More than 4,000 investigations of authorized firms were conducted last year. In approximately 61 percent of the cases, violations of Food Stamp Program Regulations occurred.

During the last year, FNS Compliance Branch Investigators assisted the Office of Inspector General (OIG), USDA in the escalation of a number of positive Compliance Branch (CB) cases into criminal investigations aimed at obtaining Federal court prosecutions. These cases involved the sale of food coupons for cash at a discount at the felony level (greater than \$100). In a couple of instances where OIG could not make agents available, Compliance Branch received permission and successfully escalated the case on its own, working directly with the U.S. Attorneys.

As a result of a successful Compliance Branch investigation, one CB Investigator was detailed to OIG for a month to work on a case which the FBI and the U.S. Attorney's Office had unsuccessfully been attempting to conduct for six months. The case resulted in several indictments.

- D. New York City Rapid Access System. It has been almost one year since New York City has implemented the Rapid Access System which was designed to reduce recipient ATP fraud. Since its implementation in October 1980, the number of duplicate issuances caused by recipient fraud has been reduced dramatically. Prior to the implementation of Rapid Access (September 1980) there were 24,000 replacement ATP's issued, 12,500 of which were suspected fraud by the recipient. In October 1980, 13,000 replacements were issued 3,000 of which were caused by recipient fraud. In December 1980, the numbers dropped to 10,259 and 250, and in April 1981, the numbers were further reduced to 8,493 and 57.

Based upon the April data and an average ATP value of \$100, we estimate a savings of at least \$1.2 million per month (12,500 - 57 x \$100) due to the city's reduction in the number of recipient caused fraudulent duplicate issuances.

- E. Pennsylvania Direct Delivery System. On October 7, 1980, FNS promulgated rules providing for \$102,000 to fund a six-month demonstration project of the Direct Delivery System in parts of Philadelphia and Pittsburgh. Direct Delivery provides for the Direct Delivery of food stamp authorizations (ATP) to the issuance outlet rather than to the individual recipient's home. At the outlet, a recipient picks up his ATP and transacts it. This precludes a fraudulent report of a lost ATP. The demonstration project virtually eliminated duplicate ATP issuance in the test areas saving the program an estimated \$132,000. As a result of the outstanding success of the project, Direct Delivery has been expanded throughout Philadelphia and Pittsburgh.

X. Gypsy Moth Update

Gypsy moth caterpillars stripped 12.3 million acres of forest, shade, and ornamental trees from Maine south to Maryland in 1981. Experts predict 1982 may be even worse.

Nationwide pheromone trapping resulted in male moth catches in approximately 20 states outside the generally infested Northeast. New infestations (reproducing populations) have been confirmed in Arkansas, California, Illinois, Oregon, Virginia, West Virginia, and Wisconsin. Locations where large numbers of male moths were trapped in Alabama, Indiana, Minnesota, North Carolina, Ohio, and South Carolina will be looked at to determine whether continuing infestations exist. Several hundred moths were trapped in Florida campgrounds, possibly the result of egg masses moved on recreational vehicles from the Northeast during Easter season when moth eggs were hatching. No new egg masses have been found in Florida.

State, federal, and local officials will meet in newly infested areas to discuss eradication methods and feasibility.

A system providing for mandatory inspection of outdoor household goods moving from heavily infested areas has been disapproved by the Office of Management and Budget. It has been estimated that 80 percent of all new infestations result from this movement.

XI. Agricultural Land Conversion*

I appreciate the invitation to share thoughts on the nature of the agricultural land loss problem in the United States and the outlook for the future.

The conversion of our agricultural lands to other uses is a potential crisis. It is a potential crisis because we still have choices we can make that will influence how much land will be left for agricultural production in the future and how much demand we will place on that land base. According to the National Agricultural Lands Study (NALS), we now have about 413 million acres of cropland in the United States. In addition, we have about 127 million acres of land that can be converted to cropland without incurring unwarranted production costs and intolerable levels of soil erosion. The most recent available data show that about 3 million acres of our agricultural lands are being converted to other uses each year. Of this 3 million acres, about 675,000 are from the 413 million acres of existing cropland; about 200,000 acres are from land with high and medium potential for conversion to cropland; and the balance is from forest lands, pasturelands, rangelands, and other agricultural lands.

Our concern over loss of agricultural land is not only about how much is being lost, but where it is being lost. In the top 100 counties ranked according to the value of their farm products, the population grew at nearly twice the national rate from 1970 to 1978. Over 40 percent of the housing constructed during the 1970s was built on rural land.

At present, our Nation's soils are eroding at the rate of about 1.9 billion tons per year. The relationship between soil erosion and productivity of farmland is not yet fully quantifiable. Research to determine that is now underway. Studies undertaken for the Soil and Water Resources Conservation Act of 1977 (RCA) indicate that the following are among the consequences by the year 2030 if current trends continue on nonfederal land.

- Gross erosion on cropland will approach 2 billion tons per year with substantial amounts of sediment being deposited in the Nation's lakes, rivers, and streams.
- Erosion on about 20 percent of the Nation's 460 million acres in cropland will exceed the level considered tolerable for sustained production.
- Nearly 50 million acres of important cropland will have been converted to nonagricultural uses.
- Substantial amounts of land currently in grass or trees will have to be converted to cropland, including lands classified as wetlands.
- Use of pesticides, herbicides, and nitrogen will be 22 percent higher.

* Statement by Secretary of Agriculture, John R. Block, prepared for the Mid-America Association of Conservation Districts, May 24, 1981.

- Costs of producing the expected demand for agricultural products, based on a restricted land base, could double.
- Nearly 145 million acres of fragile rangelands will remain in poor and fair condition and will continue to erode at about 1 billion tons per year.
- Land available for crops will be nearly exhausted and may not be sufficient to meet projected demands for food and fiber.

These studies assume a 1.1 percent annual increase in crop yields as the result of technological growth. If this rate increased to 1.6 percent per year, it would substantially reduce the severity of conservation problems by reducing the need to cultivate more erodible lands. However, if the rate of increase drops to 0.6 percent per year, there will be insufficient land available for food and fiber production and total soil erosion will continue at present levels, despite additional conservation investments. This will result from using land having more serious erosion potential for needed crop production.

The RCA assessment and NALS focused only on the use of our agricultural land base to produce food and fiber for domestic consumption and to meet foreign trade demands. The RCA projections were very conservative. Current projections indicate our exports will be at a much higher level. The Nation also faces other needs that may place severe demands on our agricultural land base. Annually, we import an estimated \$27 billion worth of natural rubber, waxes, resins, oils and lubricants, industrial coatings, and other agriculturally produced materials that are considered strategic or essential to our industrial base. In addition, we are looking for replacements for nonrenewable liquid fuels and feedstock for our petrochemical industry. Use of agricultural land for these purposes would be in addition to the demands for production of food and fiber. Should the Nation be required or choose, for economic or security reasons, to satisfy these needs domestically, we will have all our available cropland in production sometime between the years 2000 and 2030. We will also be cropping between 70 to 100 million acres of highly erodible, marginal land.

As I see it, everyone who will influence agricultural land policy in the coming decade has three difficult, immediate, and top-priority responsibilities.

The first is to change the way Americans think about their land and the agricultural production capacity of the Nation. Land is too often treated or thought of as a marketable and consumable commodity like wheat or pork bellies. However, unlike wheat or pork bellies, our supply of agricultural land is not being replenished annually. We must begin thinking of our land as an important, strategic, or essential natural resource that sustains the Nation.

The second responsibility is to make Americans understand that the situation is a crisis in the making. The present agricultural land situation has been compared to the energy conservation issue of 10 years ago. Since 1973, we have increased our dependence on foreign oil by nearly 50 percent. It was not until gas lines wrapped three times around the block in the summer of 1979 that the crisis became immediate and Americans took note. Now, we are becoming concerned about continued supplies of agriculturally produced industrial materials. For instance, we import about \$1 billion worth of

natural rubber each year. The bulk of it comes from the Middle East, a politically and economically unstable region. We are researching means of supplying it domestically from our agricultural land base. Domestic production of about one-half of our natural rubber supply will require about 2 million acres of cropland. We may or may not have a choice of producing this strategic material domestically. Economic decisions and political activities in supplying other nations may determine that for us. If we must produce natural rubber and other industrial materials domestically for economic and national security reasons, they will compete with food and fiber for the agricultural land that we have.

The third responsibility is to convince the Nation that once we reach the crisis stage, there is no turning back. The effects of urbanization are irreversible, and the options we now have will exist no longer.

The NALS results and the RCA assessment have built a strong base for establishing a national policy for protecting good agricultural land and for conserving what we have to protect, its productive capacity. We support policies that will achieve these ends, and we are working now to establish them within the Federal government. We shall continue to recognize that public responsibility for controlling land uses is reserved to State and local governments under our Constitution. We shall continue to respect and observe the rights to individual landholders to use their land within the limits of legitimate public interests. We shall also strive to remove the incentives that are too often provided in Federal agencies' programs or actions to convert agricultural land to other uses. These efforts are consistent with the NALS recommendation that State and local governments take the lead and the Federal agencies lend support.

In discussing fiscal responsibility shortly after his inauguration, the President talked about leaving our children liberty. Liberty is what we are talking about today. Liberty does not mean the freedom to squander resources and evade responsibility for the Nation's future. It means taking on responsibility for the Nation's future. It means taking on responsibility so that we have the freedom to make deliberate, conscious, and informed choices about our future.

XI. Agricultural Land Conversion

Based on findings from the National Agricultural Lands Study.

Background

- Over 40 percent of the housing constructed during the 1970s was built on rural land.
- In the top 100 counties ranked according to the value of their farm products, the population grew at nearly twice the national rate from 1970 to 1978.
- Actions under about 90 Federal programs could contribute to the conversion of agricultural land. Studies in some rural counties indicate that more than half (up to 64 percent) of the agricultural land converted to urban uses was converted using Federal programs or funds.
- Federal programs that result in a loss of land for agriculture are generally ones that promote economic development, capital improvements, housing, or natural resources development.
- The harvest from one in every three acres of cropland in the United States is now exported. Exports pay about half our petroleum import bill annually.
- If the yield per acre growth rate of 1970s continues through the next two decades, and projected demands also materialize, then American farmers would have to cultivate an additional 113 million acres of land for production of principal crops, an increase of about 50 percent. A higher rate of growth in yield per acre, one comparable to the 1960s, would require cultivation of an additional 77 million acres, an increase of 30 percent, to meet the projected demand. In addition to principal crops, we must continue producing unique and other crops for food and fiber.
- At present, less than 20 million acres of existing or potential cropland are protected under comprehensive, multi-faceted state or local programs.
- Only USDA and EPA have explicit policies designed to consider the effect of their programs on agricultural lands.
- The most recent available data show that about 3 million acres of agricultural land are converted each year to urban and built-up uses-- of this 3 million acres an estimated 675,000 acres is from the 413 million acres classified as existing cropland. In addition, the Nation has about 127 million acres of land that has high or medium potential for conversion to cropland.

Supply-Demand Issue

By Year 2000 (range)

- Domestic consumption and foreign trade in food and fiber 462 to 498 million acres

Supply-Demand Issue

	<u>By Year 2000 (range)</u>
- Self-sufficiency in strategic and essential industrial materials	+65 to +80 million acres
- Production of materials for replacement of 1/3 - 1/2 of liquid fuel needs	+60 to +80 million acres
2000 Total Needs	587 to 658 million acres
Present cropland base	540 million acres
Lands lost by conversion	<u>-25</u> million acres
Adjusted cropland base at current rates of conversion	515 million acres
2000 Needs	587 to 658
Acres Available	515
Difference	<u>72</u> <u>515</u> <u>143</u> million acres

Alternatives

- Crop production on less suitable lands: will require more fuel, labor, irrigation and chemicals and will increase rates of erosion, siltation and decrease timber production, wildlife habitat and productivity of our agricultural base.
- Crop production on land best suited for agriculture production: will mean other uses will be diverted to lands with least agricultural capability and production. Costs of installation of services for other uses would be higher. Initial costs of installation of facilities (factories, homes) could be higher.

Federal Actions

1. Administer federal programs that influence land users in such ways that:
 - programs and action do not encourage unnecessary conversion of important agricultural lands to other uses;
 - programs and actions do not contradict adopted land use plans and programs of state and local governments.
2. Encourage states and local governments to develop plans and programs that retain agricultural land for agricultural uses.
3. Manage lands owned by the federal government in such a manner that the nation's future capacity for production of food, fiber, wood and other agricultural products are protected.

XII. Leafy Spurge

The Agricultural Research Service is stepping up the fight against leafy spurge, a weed that has infested 3 million acres of north central and western range and cropland and threatens 3 million more acres.

Efforts to bring the damaging weed under control are being stepped up with \$200,000 in funding, which will go to land-grant universities in Wyoming, Montana and North Dakota for cooperative research. ARS scientists in Beltsville, Md., and Fargo, N.D., will work with state scientists in coordinating and evaluating the research.

Leafy spurge has been encroaching on north central and western rangeland and cropland for more than 25 years. Infested acreage has doubled each year.

Livestock and wild animals won't eat the weed, which can cut land productivity 40 to 70 percent as it sends out shoots from roots three feet deep to spread across the land. Without adequate controls, the weed will continue to crowd out forage plants and take rangeland out of use for livestock. Existing means of controlling the weed are either inadequate or too costly.

XIII. Marketing Orders

The 47 fruit and vegetable marketing orders were recently reviewed by a team of five U.S. Department of Agriculture and university agricultural economists. Secretary Block has turned the report over to the President's Task Force on Regulatory Relief, and announced guidelines will be forthcoming on existing and future federal fruit, vegetable, and speciality crop orders on a case-by-case basis.

Block has said, "Four provisions of marketing orders give me particular concern. Producer allotments, which restrict entry of new producers into commodity industries; prorates, which restrict the quantity of a commodity that each handler may ship to market over a stated time period; reserve pools, whereby portions of a commodity are held back from primary markets for later sale, diverted to secondary markets or disposed of in nonfood uses; and quality provisions, which may possibly be misused as nontariff trade barriers."

The report also indicates, according to Secretary Block, that marketing orders may have potential for increasing economic efficiency by stabilizing returns to crop growers and by providing quality assurance to buyers.

He said the report indicates, however, that if marketing orders limit quantities of commodities in one or more outlets, they may impose inefficiencies on the production and marketing system. The team's report describes research provisions of marketing orders as the most likely to contribute to economic efficiency.

This is followed, in descending order, by:

- Pack and container standardization;
- Grade, size and maturity standards, particularly those that remain essentially the same from year to year;
- Prorate regulations controlling rate of flow during only part of the season, and reserve pools that are used for storing commodities for later return to the market;
- Market allocation and full-season prorate provisions; and
- Provisions that allot market shares among producers.

The five-member review team, headed by USDA staff economist Richard Heifner, examined marketing orders in light of changes that have occurred recently in economic conditions and philosophy.

The team's report addresses the likely effects of four major options-- continuing the programs as they are; eliminating them, but not substituting new federal programs; replacing them with other programs designed to overcome some of the same marketing problems; and changing individual marketing orders to focus on those provisions which contribute most to efficiency and productivity.

The report said marketing order provisions that allocate products to markets or regulate the flow of crops to market throughout the season have little positive effect on overall economic efficiency and may actually have a negative impact. However, the report said, these provisions "when used infrequently...may be justified as a 'safety-valve' to protect growers from disastrously low prices."

Provisions that allot market shares among producers are generally the most likely to detract from economic efficiency, according to the report, "although even these provisions may carry some stabilization benefits."

Marketing orders are designed jointly by USDA's Agricultural Marketing Service and affected producers to help overcome specific marketing problems. Marketing orders may regulate the quality and sizes of the commodity marketed, the quantity, or both. Unlike many government regulations imposed on industries, the orders are put into effect or eliminated only following a referendum of affected producers.

Assessments that handlers pay are used to finance research to improve production and marketing, as well as market development activities and advertising.

XII. Marketing Orders - Major Points of Guidelines

On January 25, 1982, Secretary Block announced new guidelines for federal market orders. The guidelines address several marketing order categories.

Producer Allotment Programs - These programs establish a maximum quantity that may be sold in all outlets each year. The guidelines state that these programs should not be used to reduce competition by restricting entry, nor to impede industry adjustments. The guidelines call for elimination of barriers to entry.

Market Allocation Programs - These programs establish the maximum quantity that may be sold during a season in one or more outlets. The guidelines state these programs should not encourage or continue chronic over-production, nor restrict competition in preferred markets. The guidelines ask that the Secretary give particular emphasis to the long-run implications on annual market allocation recommendations.

Prorates - Prorates establish a maximum quantity that handlers ship during a limited time period (usually a week). The guidelines state that prorates should not "over regulate" individual handlers, and that industry should consider changes in the present system that would permit greater intraseasonal flexibilities for individual handlers while protecting the viability of the program.

Reserve Pools - The reserve pools "set aside" a portion of heavy supplies for later use. The guidelines discourage using reserve pools in a manner which encourages over-production. The guidelines ask that recommendations for the establishment of a reserve include estimates on the ultimate disposition of the reserve.

Quality Provisions - These provisions deal with minimum grade and/or size regulations. The guidelines discourage use of quality provisions as a form of quality control, and warn that quality provisions may create perceptions of food waste. The guidelines ask that industry consider allowing marketing of off-grade/size products within the production area, or establishing a minimum quantity exemption.

Other Guideline Recommendations

The frequency and duration of shipping holidays should be minimized and based on economic justification.

Industries should consider the impact of recommendations on import requirements under 608e in view of international agreements.

The USDA encourages industry-funded self-help research and promotion programs.

The USDA strongly encourages cooperatives to refrain from bloc voting.

Other Guidelines Recommendations

The Guidelines make three recommendations for administrative procedures.

1. Marketing Order Committees must accept responsibility for timely and acceptable data.
2. All committee membership tenure must be limited.
3. Periodic referenda will be required under all marketing orders.

Source: AMS notebook on marketing orders

XIV. Mediterranean Fruit Fly

Control Program

The number of treated acres has been decreasing in recent weeks. In treatment #12, 1270 square miles were treated. In treatment #13, 936 square miles were covered. In treatment #14, 881 square miles were scheduled.

On November 15, some 701 square miles will be released from the treatment area, leaving 235 square miles that will include Los Angeles, Stanislaus county and a portion of northern Alameda county. As of November 30, the Stanislaus county area will be dropped from the treatment schedule (96.5 sq. mi.) leaving Los Angeles and the portion of Alameda county (Livermore, Alameda, Castro Valley, etc.). Over the winter, these remaining areas will receive aerial pesticide treatments every 30 days until spring. The extensive trapping program will continue all over the state to monitor for any additional infestations.

On October 22, a helicopter crash occurred over Fremont. The helicopter pilot, an employee of Evergreen Helicopters, one of the two main contractors on the job, was killed as the chopper became tangled in power lines returning from a spray run over Alameda. Fog had become a problem and the chopper was trying to return to base. A house was hit and the elderly woman occupant plus several other people nearby were taken to local hospitals, treated and released. Since the helicopter was returning from a spray run, no significant pesticide spill resulted. No changes in the aerial application program will be made as a result of the accident.

The last life stages of Medfly were adult flies found on October 8--one female with eggs in Castro Valley (Alameda county) and one male in La Puente (Los Angeles county.)

Status of the Use of Ethylene Dibromide (EDB)

The status of this commonly-used fumigant is changing almost daily. California's Division of Occupational Safety and Health (Cal/OSHA) has imposed an emergency temporary occupational safety and health standard for EDB that sets a standard of 130 ppb (parts per billion) and other specific requirements for the safe handling of EDB and EDB-fumigated commodities, within 24 hours following introduction of EDB into the workplace. The emergency order calls for constant monitoring of the fumigated products and for retail grocery stores to post a sign over EDB-fumigated fruit that reads, "Danger—Ethylene Dibromide Cancer Hazard May Cause Sterility". USDA's unofficial position is that Cal/OSHA is acting on an issue outside its authority. However, until the matter can be discussed at a scheduled November 12 public hearing in Sacramento by all concerned parties, fruit and vegetable commodities in California treated with EDB are tied up within the state.

The Japanese reaction to the EDB question is still volatile. Japanese longshoremen have refused to handle fumigated fruits and vegetables and some grocery stores have refused to handle and sell the material. No policy or direction has been settled on as yet.

Mediterranean Fruit Fly (Florida)

The state of Florida and USDA will announce eradication of the Medfly from Florida on Thursday, November 12, in Tampa. APHIS Deputy Administrator Harvey Ford will join Florida Agriculture and Consumer Services Commissioner Doyle Cenner in a press conference at 9:30 a.m. which will also announce lifting of emergency regulations on movement of Medfly hosts. The fifth and last Medfly was found in Florida on August 14, and aerial spraying was completed on October 9.

XV. National Forest Lands

Issue: National Forest Timber Contracts Extended. The Forest Service recently announced that it would allow qualified timber purchasers to extend the harvest requirements of their contracts for as much as two years.

Situation: On October 15, 1981, Forest Service Chief Peterson announced that two-year extensions would be made available on most national forest timber sales contracts. Contracts which were previously extended for one year will be eligible for the two-year extension. Although the extensions will give purchasers of national forest timber additional time in which to harvest the timber, many of the contract stipulations regarding the construction of roads will remain valid.

The decision to extend timber contracts was viewed by some people as a "handout" to the timber industry. Timber firms which had already fulfilled the terms of their contracts even though it meant economic losses were also displeased. However, the decision to offer the extensions was necessary to insure the orderly progression of the Forest Service timber sales program as well as to provide economic relief to some communities that are dependent upon national forest timber activities.

XV. National Forest Lands

Issue: Management of Mount St. Helens. On October 15, 1981, the Forest Service issued its Final Environmental Impact Statement for the future management of Mount St. Helens. This FEIS incorporated the opinions of state and private organizations, individual citizens, and other federal agencies together with the professional opinions of Forest Service specialists assigned to the monitoring and rehabilitation of the area.

Situation: The May 18, 1980, eruption of Mount St. Helens, located on the Gifford Pinchot National Forest, devastated a 120-square mile area and killed 60 people. From the time of the first eruptions in March 1980, the Forest Service has had the primary responsibility for managing the area surrounding the volcano. These responsibilities have included controlling access to the area, search and rescue operations, conducting research, and assessing damages to federal lands.

The final management plan for Mount St. Helens was prepared and issued in the form of an environmental impact statement. A major element of the EIS was the creation of an 85,000-acre Interpretive Area. This area was formally designated as the nation's first National Volcanic Area on October 16. Management of this area will insure that significant geologic, biologic, and human interest features are protected; areas suitable for research activities are provided; observation of biological and geological processes along with interpretive facilities will be provided to the public. The fact that about 24,000 acres of private and state lands are contained within the Volcanic Area means that cooperation will be a key element in effective management of the area.

The EIS will be incorporated into the overall management plan for the Gifford Pinchot National Forest and those areas outside of the Volcanic Area will be managed under the multiple-use concept. This will provide for timber harvesting and salvage, recreation, wildlife habitat management, and a variety of other uses.

XV. National Forest Lands

Issue: Mineral Leasing in Wilderness Areas. Pending Forest Service action regarding applications for leases, primarily for oil and gas, in wilderness areas is a controversial subject which will be of major interest to the public in the coming months.

Situation: The Wilderness Act of 1964 provides for mineral leasing and subsequent exploration and development in wilderness areas until December 31, 1983. The Forest Service currently has received about 350 applications for leases in wilderness areas. There were another 300 applications submitted for the Bob Marshall Wilderness complex, but these were nullified by Congressional action which withdrew the area from mineral activities as of June 1, 1981.

The Forest Service, which is responsible for recommending to BLM whether or not leases on National Forest System lands should be granted, has not formally acted on any other the applications involving wilderness areas. However, in June of this year, the Los Padres National Forest in California issued a draft environmental assessment which addressed 257 oil and gas lease applications. In this draft document, the Los Padres recommended that leases be granted for all 257 applications, including 7 in wilderness areas and 7 others in an area recommended for wilderness designation by the RARE II process. Although this draft document is subject to revision and outlines strict stipulations which must be followed with regard to leases in wilderness, it has gained notoriety as the first "official" Forest Service position on wilderness leasing. In March, 1982, Regional Forester Zane Smith will issue a decision on whether the environmental assessment is adequate or whether a more detailed environmental impact statement is warranted.

Meanwhile, the Shoshone National Forest in Wyoming is scheduled to issue a draft environmental impact statement on November 13 which will contain a recommendation on lease applications for the Washakie Wilderness. Following 90 days of public comment, the final environmental impact statement will be issued. If the EIS recommends approval of the leasing and this decision is not challenged in the courts (an unlikely possibility), exploratory drilling could take place in the Washakie as early as March, 1982. The Shoshone NF has so far received about 1400 letters, telegrams, etc., protesting any type of minerals activity in the Washakie.

XVI. Pseudorabies

Pseudorabies has become a major threat to the swine industry. A highly virulent form of the disease, which first appeared in this country in the 1960s, can kill up to 100 percent of young pigs in some outbreaks. Although vaccines are available to reduce economic losses, they will not prevent swine from becoming infected and spreading the disease to other animals. Also, since tests cannot differentiate between vaccinated and infected swine, there is no way to be certain if a vaccinated animal is actually infected or just showing a reaction to the vaccine.

Although there is considerable difference of opinion on the approach to pseudorabies among the swine industry, most agree that the ultimate long-term goal should be eradication.

Federal regulations to prevent the interstate spread of pseudorabies by controlling movement of infected swine have been in effect since May 1979. Some individuals, many very vocal, feel that federal regulations should be eliminated and movement controls should be lifted. Many of these individuals have infected and/or vaccinated herds and are seedstock producers. APHIS feels that some safeguards through federal regulations are necessary to protect uninfected swine and provide the way for uniformity in state regulations.

Although USDA concurs in the long-term goal of eradication, the department does not intend to undertake a nationwide program at this time. Rather, it favors cooperating with individual states in designing pilot programs to test different approaches for combating this disease. APHIS plans to submit a request for a supplemental appropriation to fund the pilot program(s).

A meeting of representatives of the swine industry and scientists and veterinarians from Land Grant Universities and USDA's Agricultural Research Service (ARS) and Animal and Plant Health Inspection Service (APHIS) is being held November 5-6 in Des Moines, Iowa, to discuss pseudorabies and, hopefully, arrive at some mutual conclusions on a nationally coordinated approach to the disease, including producers' needs, control and pilot eradication programs, and research priorities.

XVII. Research

Animal Disease Research Laboratories

Animal disease research in the Agricultural Research Service is concentrated at seven locations. One of these, the National Animal Disease Center at Ames, Iowa--the largest such unit in the world--has a mission to conduct basic and applied research on diseases of national importance and causing serious economic losses in swine, cattle, sheep, horses, and poultry.

The other animal disease laboratories are unique in that each specializes either in a single disease area or in specific diseases of a single animal species. The laboratory staffs include chemists, virologists, bacteriologists, veterinarians, physiologists, entomologists, and pathologists working together on disease control.

ARS research laboratories, because of their highly skilled multi-disciplinary staffs, are excellent training locations for U.S. and foreign scientists needing specialized training. The large interdisciplinary staffs also provide the United States with a highly trained research and diagnostic staff that can be rapidly mobilized to meet any animal disease emergency.

In addition to the center at Ames, animal disease research is in progress at:

- The Arthropod-Borne Animal Disease Research Laboratory, Denver, CO;
- Animal Research Unit, Pullman, WA;
- Southwestern Livestock and Forage Research Station, El Reno, OK;
- Regional Poultry Research Laboratory, East Lansing, MI;
- Southeast Poultry Research Laboratory, Athens, GA; and
- South Central Poultry Research Laboratory, Mississippi State, MS.

XVII. Research

Beef Herds Improved

Agricultural Research Service scientists, Extension Service specialists, industry representatives, and beef breeders have joined forces to improve the genetic merit of the nation's beef cattle.

As a result of these efforts, there are now national sire evaluation programs for at least 12 breeds of beef animals. The development of uniform guidelines provides much-needed information for breeders in different parts of the country working to improve their herds. Using this data, a breeder can select a bull on the basis of calving ease, weaning weight, yearling weight, or on other factors based on progeny performance.

Extension personnel have worked closely with beef breeders to establish sound breeding programs based on data provided by ARS scientists on factors valuable in breed improvement. More selective breeding has resulted in more efficient meat production.

ARS & ES - 11/19/81



XVII. Research

Cold-Hardy Hybrid Oranges May Reduce Costly Freeze Damage

ARS scientists are breeding cold resistance into orange trees from Australian and Chinese relatives of citrus, developing a new hybrid citrus which offers possible relief for both producers and consumers when a freeze hits Florida.

One line of cold-hardy hybrids now being developed withstood 14° F temperatures that damaged orange groves last January in Florida. An offspring of the desert lime tree of Australia, the hybrids could profit not only from the tree's cold hardiness, but also from its drought and disease resistance.

ARS - 11/19/81

XVII. Research

Dairy Forage Research Center

Studies aimed at improving the nation's dairy industry are carried out in a new U.S. dairy Forage Research Center dedicated in June 1981. The Center consists of an office-laboratory-greenhouse complex at Madison, Wisconsin, and a 1,300 acre field unit at Prairie du Sac.

Research at the Center is complemented by state and federal cooperative research at seven agricultural experiment stations known as cluster locations.

Cluster locations are at stations in Iowa, Michigan, Minnesota, Missouri, New York, Ohio, and Pennsylvania. About 70 percent of the nation's dairy products come from these states and Wisconsin.

Improving forage use, conserving energy, and conserving soil resources are the purposes of the Dairy Center research program. The nation's need for conserving natural resources makes increasingly important the use of forages in dairy cow diets. Forages require less use of fossil fuels than the production of feed grains and they can be produced with less soil erosion and less dependence on pesticides. Research on making better use of forage production resources can have a strong anti-inflationary impact on the cost of dairy products.

XVII. Research

Foreign Animal Disease Research Center

The Agricultural Research Service has the responsibility for research on animal diseases that do not exist in the United States but pose a threat to U.S. livestock and poultry industries. The major portion of this research is done at the ARS laboratory on Plum Island, 1.5 miles off Long Island, NY. There are also high security facilities for the study of foreign diseases located in Denver, CO, and Athens, GA.

One disease being studied extensively only at Plum Island is African swine fever, commonly found in the Dominican Republic and Haiti and reported in Cuba. There is no vaccine for this disease, which poses a serious threat to this country's swine population.

Announcement of the production of a genetically engineered vaccine against the virus of foot and mouth disease, one of the most serious diseases of animals throughout the world, was made in June 1981 as a result of research at the Plum Island facility. This breakthrough in the application of recombinant DNA technology can mean annual savings of billions of dollars and an increase in the world's supply of meat. The work, done under a cooperative agreement between the Agricultural Research Service and Genetech, Inc., is the first production through genesplicing of an effective vaccine against any disease in animals or humans.

Other foreign animal diseases that have been or are under study at Plum Island are:

- rinderpest
- sheep pox
- duck virus enteritis
- Teschen disease of pigs
- swine vesicular disease
- African horse-sickness
- contagious bovine pleuropneumonia
- exotic strain of blue-tongue
- serious blood-parasite disease called East Coast fever

XVII. Research

Livestock Research

The Agricultural Research Service conducts research to improve livestock productivity and to improve the quality of meat and livestock products through improved breeding, feeding, and management practices. Research is conducted to develop methods for controlling diseases, parasites, and insect pests affecting livestock.

The overall objective of the ARS's beef production national research program is to provide information for use of producers in improving efficiency of production and in fitting product quality to consumer desires.

Technological objectives of the research are:

- to improve efficiency of reproduction;
- to improve efficiency of feed utilization;
- to improve genetic capacity for production;
- to improve efficiency of beef herd management systems and practices;
- to improve efficiency of producing quality products; and
- to decrease losses due to disease, pests, and other hazards.

Diverse programs to achieve these goals are underway at the following locations:

- | | |
|--|--|
| <ul style="list-style-type: none">- Beltsvills, MD- Brooksville, FL- Jeanerette, LA- Miles City, MT | <ul style="list-style-type: none">- Clay Center, NE- El Reno, OK- Knoxville, TN- Bushland, TX |
|--|--|

XVII. Research

New Hybrid Grasses From Genetic Research

A multidisciplinary research team of ARS scientists at the Coastal Plain Experiment Station at Tifton, GA, pursues a broad research program on plant genetics ranging from field selections to fundamental investigations of the nature of inheritance. The lab where they work is shared by USDA and state university scientists on land owned by the University of Georgia's Agricultural Experiment Station.

A recent development, a new hybrid grass called Tifton 44, may play a significant role in meeting the food needs of an expanding population worldwide. Because Tifton 44 bermudagrass is so nutrition-rich, as a feed for cattle it could add millions of pounds of beef a year to the marketplace. Cattle eating Tifton 44 average daily weight gains that are 19 percent higher than their gains on other grasses. Research indicates that if Tifton 44 were planted in the 500 mile region from the South Atlantic states to Central Texas, where Coastal bermudagrass is now the principal forage grass, that area could increase its beef production by 50 million pounds without increasing the number of cattle. Additionally, because Tifton 44 is winter-hardy, it can be planted farther north than Coastal bermudagrass, and is adaptable to planting in other countries having similar climates.

Another of the ARS scientists' achievements is Coastcross No. 1 bermudagrass, which allows farmers to produce 35 to 40 percent more beef per acre of forage and gives superior daily weight gains.

XVII. Research

Research At National Soil Erosion Laboratory

Research at a new National Soil Erosion Laboratory, built on land provided by Purdue University at Lafayette, IN, will provide continuing input to the knowledge needed for saving our soil and water.

Studies will concentrate on:

- All possible combinations of tillage and mulching practices
- Erosion controlling chemicals
- Total farming systems directed at erosion control
- The accuracy of predicting erosion using computer models
- The basic mechanics of erosion
- The impact and effect of raindrops on soil particles and chemicals
- How soil particles are detached and how they move
- The characteristics of soils in relation to their erodibility

All research will be evaluated and assessed for both cost effectiveness and erosion control efficiency.

ARS - 11/19/81

XVII. Research

Vaccine For Foot And Mouth Disease

Announcement of the production of an effective, genetically engineered vaccine against the virus of foot and mouth disease, one of the most serious diseases of animals throughout the world, was made in June 1981 as a result of research at the Foreign Animal Disease Research Center at Plum Island, NY.

This breakthrough in the application of recombinant DNA technology can mean annual savings of billions of dollars and an increase in the world's supply of meat.

The work, done under a cooperative agreement between the Agricultural Research Service and Genetech, Inc., a San Francisco based firm, is the first production through gene splicing of an effective vaccine against any disease in animals or humans.

ARS - 11/19/81

XVIII. Rural Development

See NEW PROGRAMS, Section III, for details on the Office of Rural Development Policy, which will serve a leadership and coordination role in the Department of Agriculture's rural development effort.

XIX. Soil and Water Conservation

A large part of the true wealth of the United States is its abundant natural resources--tillable land, clean water, and productive forests. These resources, combined with the most favorable climate in the world for growing crops and timber, have enabled us to produce all of the food that we need...and most of the clothing and shelter.

In most years, we have supplied ourselves in abundance, exported to many other nations, and still had enough left over to create sometimes worrisome surpluses.

We have doubled agricultural production in the past 30 years, and we now provide about 17 percent of the value of the world's food and fiber exports.

Five tons of soil per acre per year is the maximum amount that can wash or blow away from farmland without impairing the land's productivity. More than 140 million acres of American cropland--much of it in the Corn Belt--now exceeds that erosion rate. Over the next 50 years, this productivity loss, if not halted, could equal the output from 25 to 62 million acres of cropland. Stated another way, this means that we would give up forever the production of 50 to 75 million metric tons of grain every year. That's half the grain we exported last year.

Secretary Block kept this in mind in developing the preferred Resources Conservation Act (RCA) program, which he announced October 29, 1981.

The preferred program sets clear national priorities for addressing soil and water problems. These priorities are to:

- Reduce excessive soil erosion that would impair agricultural productivity;
- Reduce flood damages in small, upstream watersheds;
- Conserve water, enhance water quality and supply and conserve community-related natural resources; and
- Improve fish and wildlife habitat and increase the use of organic waste.

To accomplish these goals, we propose:

- An expanded role for local and state governments in developing and implementing soil and water conservation programs;
- Targeting of a greater share of USDA conservation program funds and people to critical problem areas;
- Federal matching block grants to states, funding for which would be obtained from existing Federal conservation programs;

- More emphasis on conservation tillage and other cost-effective measures for reducing soil erosion to accomplish more for each private and public dollar spent;
- Pilot projects to test new solutions to conservation problems;
- Requirements that farmers receiving Farmers Home Administration Loans have conservation plans for their farms;
- Evaluation of tax incentives to induce greater use of conservation systems; and
- More effective research, education, and information services.

XX. Tobacco User Fees

On Oct. 1, the U.S. Department of Agriculture began collecting user fees for mandatory inspection of tobacco at auction markets. User fees are required by the Omnibus Budget Reconciliation Act of 1981. USDA had provided free tobacco inspection since 1935 with passage of the Tobacco Inspection Act.

The user fees were instituted on an emergency interim rulemaking basis after a Sept. 8 proposal solicited comments from industry and other interested parties. Eleven comments were received on the proposal. Seven were supportive and four were opposed.

The final rule has not yet been published in the Federal Register. Once the final rule is published in the Register, it will be retroactive to Oct. 1.

The user fee is \$.0045 per pound of tobacco inspected. The final rule also amends regulations to increase appeals charges from \$1 to \$5 and establishes a committee of fourteen to advise USDA about inspection levels, services and fees.

Recommendations for membership will be solicited from Farm Bureaus in Georgia, Kentucky, North Carolina, Ohio, South Carolina, Tennessee, Wisconsin or Ohio, as well as from the North Carolina Grange. One at-large member representing other tobacco-producing states will also be chosen.

Fees for permissive inspection, which has been supported by fees since passage of the 1935 Tobacco Inspection Act, will be \$17.80 per hour, \$21.30 per hour for service outside the inspector's regular tour of duty and \$26.70 an hour for services on holidays and Sundays.

XXI. Trade Issues

Export Growth--U.S. agricultural exports in fiscal year 1982 are projected at about \$45.5 billion in value and about 180 million metric tons in volume. Both are record totals and represent increases of more than 6 times in value and more than double in volume since 1970.

U.S. agricultural trade this fiscal year will produce a record surplus (the excess of exports over imports) of about \$28 billion, which compares with an agricultural trade surplus in 1970 of just over \$1 billion.

U.S. Agricultural Trade Balance 1976/77-1980/81
Year Beginning October 1

	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>
				Billion dollars		(forecast)
Exports	23.97	27.29	31.98	40.48	43.80	45.50
Imports	13.36	13.88	16.19	17.27	17.20	17.50
Trade Balance	10.61	13.41	15.79	23.21	26.60	28.00
- - - - - Million Metric Tons - - - - -						
Export Volume	111.9	131.9	137.4	163.9	163.0	

Importance to Farmers--Exports now provide about 30 percent of U.S. farm marketing income, and the harvest from almost two-fifths of our cropland acres is sold in foreign markets. For some producers, this ratio is even higher. Wheat farmers depend on exports for nearly two-thirds of their markets; about half our production of soybeans, rice and cotton is sold overseas.

Importance to Nation--Beyond the farm, the benefits of a healthy agricultural trade are less visible, but no less important.

Agricultural exports generate jobs--more than one million people are working full time in farm-export-related jobs--producing for export, and handling, storing, processing, shipping and financing export products.

Exports generate additional business activity--every dollar that is returned to the United States from farm exports is more than doubled in business activity in the general economy.

Exports hold down taxes--they enable the farmer to depend on the market for his livelihood, rather than on taxpayer-financed programs to support prices or store surpluses that can't be marketed at home.

Farm exports held pay for nonfarm imports--this year's expected agricultural trade surplus of \$28 billion represents a "net profit" of \$28 billion worth of foreign currency to be applied to the nation's international trade account. This helps to pay for imports of oil and other nonagricultural products, which have risen much faster than exports of these products. In calendar year 1980, the nonfarm trade deficit was \$47 billion, but a \$24 billion farm trade surplus held the over-all U.S. trade deficit to \$23 billion.

U.S. agricultural exports are expected to total a record \$45.5 billion in value this fiscal year, about 6 times their value 10 years ago. Export volume will be up about 8 percent to 180 million metric tons, also a record and more than double the volume of 10 years ago.

Export Benefits. Exports have become the leading growth element in U.S. agriculture, providing about 30 percent of farm income from marketing. The harvest from almost two-fifths of all U.S. cropland moves into exports. About two-thirds of our wheat and half our soybeans, rice and cotton are sold in foreign markets.

Agricultural exports benefit everyone, not just farmers. More than one million people work full time in jobs directly related to agricultural exports; each dollar returned from farm exports is doubled in business activity throughout the economy. Farm exports hold down taxpayer costs by reducing farmer dependence on government programs for a livelihood.

An Administration Priority. The Reagan Administration has placed a high priority on continued agricultural export growth. The objective is long-term, sustainable growth to be achieved by working for more liberal world trade, less government interference in the market, and intensified export expansion efforts with increased participation by the private sector.

The President, the Secretary of Agriculture and others in the Administration have made clear to other countries the U.S. concern over increased protectionist tendencies in trade. They have said the U.S. intends to compete fairly in the world market, that it expects other countries to do the same, and that it will do whatever is necessary to protect its trading rights.

Market Development Intensified. New tools are being added to USDA's market development capability. Funds available for export credit guarantees are being increased by \$500 million over a 2-year period and new credit avenues are being explored. Commodity sales teams comprising government, trade, and producer specialists are being sent to countries where there is strong competition and/or significant market growth potential. Computer and satellite techniques are being employed to provide faster, more accurate analysis of world agricultural and trade conditions, and to relay trade leads from foreign buyers to U.S. suppliers.

Plans are under way to mount an intensified campaign to increase exports of value-added products--to sell more processed foods and feeds rather than the raw materials from which they are made.

Future Prospects. Competition is increasing in the world market, but so is foreign demand for food as populations and--in most countries--incomes rise. Weather and economic factors make export predictions hazardous. However, at this point, we expect U.S. agricultural exports to continue upward in fiscal year 1983 in both volume and value. For the longer term we project that foreign demand for food will increase at a near record rate during this decade, and we are determined that U.S. agriculture will share fully in that increase. The Foreign Agricultural Service, USDA's export agency, has set exports of \$75 billion by 1985 as an attainable goal.

XXI. Trade Issues

This year perhaps more than ever before economic variables are making the forecasting of agricultural exports something less than a precise art.

The year just past gives an indication. At the Outlook Conference for fiscal 1981 a year ago, the Department was forecasting another record export year in both value and volume, with shipments pegged at 170 million metric tons valued at more than \$48 billion. The agricultural trade surplus was projected to reach nearly \$30 billion.

Looking back today, we find that the forecasts of new heights for export value and the trade surplus were achieved, but they were substantially below expectations — a total of \$43.8 billion for exports and nearly \$27 billion for the trade surplus. And export volume was off slightly from the 163-plus million tons of fiscal 1980.

The variables that pushed results below expectations are generally well known, although some were not anticipated at Outlook time a year ago.

One was high interest rates, which tended to constrain the ability of developing countries to buy larger volumes of goods, including agricultural commodities, and discouraged buying beyond immediate needs by some importers.

Another factor was the dramatically stronger dollar, which made U.S. goods more expensive in international markets. It is hard to pinpoint the net effect of exchange rate movements on U.S. exports. However, I think it is significant that U.S. farm exports were moving as targeted until the dollar's rapid rise during the spring and summer of 1981. After that appreciation, our exports deviated downward from the forecasted levels.

Those two factors — high interest and the stronger dollar — combined with a generally sluggish worldwide economic performance to dampen demand for U.S. agricultural products.

There is another factor that took on increasing significance during the past year. I am referring to the use of trade-restricting and trade distorting practices, and I will return to that later.

Looking ahead, all of these factors will continue to affect agricultural trade during fiscal year 1982. It is not possible, of course, to project with accuracy either the degree or direction of their impact.

At the same time, there are two certain elements in the FY 1982 export picture, and the impact of both will be positive. First, we are in a good export supply position. Second, the Department of Agriculture, with full administration support, has mounted a vigorous campaign to move these supplies into the world market.

Record crops of corn and wheat, and a near-record crop of soybeans have more than assured abundant supplies and as a result we expect last fiscal year's trends in volume and price to be reversed. We project fiscal 1982 agricultural exports to increase by about 10 percent in volume while export unit values decline an average of about 6 percent.

Putting numbers on this appraisal, we have forecast total agricultural exports for fiscal 1982 of about 180 million tons valued at close to \$45.5 billion. The agricultural trade surplus is expected to increase marginally to \$28 billion.

We expect some value gain in all commodity categories except oilseeds and products, which are projected to be unchanged, despite an expected increase of almost 3 million tons in soybean exports. Major increases are expected for wheat exports, which are forecast at over 50 million tons, and feed grain exports, which are forecast at more than 74 million tons. The value of total grain and feed exports is projected to rise by more than 3 percent to about \$22.4 billion, with a gain in the value of wheat exports more than offsetting a slight decline in that of corn.

Cotton exports also are forecast to increase substantially after last year's decline. We look for a gain of about one-fourth in volume and close to 15 percent in value for cotton shipments to about \$2.6 billion.

Wheat, feed grains and soybeans will continue to provide more than two-thirds of U.S. agricultural export earnings.

Wheat exports should reach a record of over 50 million tons, nearly one-fifth larger than last season, and the United States should capture virtually all of the expected growth in world wheat trade. Already, U.S. wheat exports sales in the 1981/82 marketing year are 25 percent ahead of the pace of a year earlier.

U.S. wheat exports are expected to benefit substantially from expanded Soviet imports and the return of India to the world market. Other positive factors are likely to be large imports by Turkey, normally a wheat exporter, larger imports in North Africa, where there were crop difficulties, and growing imports by a number of developing countries including Egypt, Brazil and South Korea.

At this stage, crop shortfalls in Australia and Argentina could drive this export forecast higher while factors that could bring it down would include no purchases by India beyond the 1.5 million tons already contracted for or lower Soviet imports than are now anticipated.

The outlook for corn and coarse grain exports, although a record volume is expected, is not quite as optimistic as that for wheat. At this time, we forecast corn exports to rise 7 percent, mostly on the strength of anticipated record Soviet imports.

However, in countries other than the Soviet Union, uncertain economic conditions have resulted in sluggish demand for livestock products and feed grain imports. At the same time, production in the other exporting countries is expected to remain high for the second consecutive year, and exports by these countries will be up sharply.

While only 5 percent of world coarse grain output is produced in Argentina, Australia, and South Africa, these Southern Hemisphere countries are major competitors and swing factors in world coarse grain trade. The United States generally supplies about two-thirds or more of world trade in coarse grains and these three competitors account for about 20 percent.

Clearly, production in these countries is of keen interest to U.S. exporters, and its impact is heightened because storage and other infrastructure constraints dictate that output be marketed as soon and as fully as possible. Corn harvests begin in March in Argentina and in May in South Africa. Dry conditions have delayed corn planting in Argentina.

If the Southern Hemisphere corn crops are not up to current expectations or if Soviet feed grain imports are larger than now anticipated, U.S. corn exports could, of course, be larger than now forecast. We could also see an additional increase in shipments if the current favorable level of world price begins to stimulate demand. On the other hand, should Soviet imports fall below expectations and economic conditions worsen, exports could be lower.

As for soybeans, sharply reduced shipments of beans and products from the Southern Hemisphere combined with improving crushing and feeding margins should translate into larger U.S. exports in 1981/82.

On the supply side, Brazil shipped a very large portion of its products in the March-September period, hurting U.S. sales in 1980/81. Now, with dwindling supplies, exports from the Southern Hemisphere will taper off significantly in the next several months, leaving the United States as

the principal supplier of soybeans and products. In addition, growth in foreign output of oils and fats other than soybean oil will decline relative to 1980/81.

With improved crushing margins and lower prices, world soybean utilization should rebound from last year's decline. Soybean imports by the European Community, the Soviet Union and Spain are expected to show healthy increases, while Japanese imports should at least match last year's level.

Among the major soybean markets, only Mexico will register a drop compared to 1980/81.

World meal consumption should show a 6 percent increase in 1981/82, reflecting lower meal prices in response to larger soybean supplies. In addition, U.S. soybean oil exports will be helped by relatively low vegetable oil prices and depleted stocks levels in most importing countries. Together with a 300,000 ton drop in Brazilian soybean oil shipments in 1981/82, this should boost U.S. exports of soybean oil by about 40 percent to over 1 million tons.

However, lower unit prices are expected to hold the value of our exports of soybeans and products at about last year's level.

One of the bright lights in our overall agricultural trade picture is exports of livestock and livestock products. This group of items is projected to be a leader in higher export earnings, gaining 13 percent to \$3.6 billion. Poultry exports are expected to rise by 9 percent to \$838 million. Butter sales will be the major factor in a projected gain in exports of dairy products for a total value of \$370 million.

Among other items, we project an increase in exports of fruits, nuts, and vegetables of 3 percent to more than \$3.3 billion and tobacco shipments should be up in both volume and value to \$1.5 billion. A decline in sugar exports from the abnormal fiscal 1981 high will push the value of shipments of sugar and tropical products down about 5 percent from last year's \$1.37 billion.

As I suggested earlier, the export gains that we project must be achieved under increasingly restrictive world market conditions and increased competition from other suppliers. And to meet the challenge, we have launched an intensified effort to expand new markets, maintain old markets and effectively meet the competition.

The first major step in improving the U.S. market position was taken last April 24 when President Reagan lifted the partial embargo on agricultural sales to the Soviet Union. This opened the way for a return to more normal trade in a market that has taken as much as about 15 million tons of U.S. grain and nearly 2 million tons of U.S. soybeans in past years.

It will take time and effort to recover our position in this market. The long term grain agreement with the Soviets has subsequently been extended for one year and we have offered the Soviets 15 million tons of corn and wheat for this year beyond the 8 million-ton maximum specified in the agreement.

If the Soviet Union, faced with its third straight year of poor harvests, should buy at the maximum level, it would mean purchases of 23 million tons valued at well over \$3 billion. However, the Soviets have long-term commitments to buy from other suppliers — commitments negotiated during the U.S. embargo — and their import capability is not unlimited. They already have bought more than 8 million tons of corn and wheat for delivery in this agreement year, and the sale of 500,000 tons of soybeans, which are not covered by the agreement, has been reported — the first such sale in a year and a half.

To meet the competition head-on, the Department has sent government-industry grain and soybean oil market development teams, which included producer members, into countries with strong import growth potential in Latin America, North Africa and the Far East.

These teams generally reported excellent success in establishing a rapport with government officials and the trade in their host countries. They found a positive reaction to this demonstration of cooperative action by the U.S. Government, producers and exporters to better serve importer needs, and they brought back recommendations on what can be done in each market to sell more U.S. grains and soybean products. We have assigned top priority to action on these recommendations.

To augment these efforts, Secretary Block has led two market development missions overseas.

The first was to the European Community, primarily to make clear to officials of the Community and its member countries the U.S. opposition to the increasing use by the EC of export subsidies and its proposals to further restrict access to the EC market for U.S. agricultural products.

We are pleased that the EC Commission subsequently set aside its proposal for an internal vegetable oils and fats tax that would have damaged a \$4 billion market for U.S. soybeans and products. But we remain concerned over EC sentiment for ending the duty-free status of non-grain feed ingredients — a \$600 million item for U.S. agriculture — and its proposal for a Common Export Policy. This would expand the use of export subsidies and other trade-distorting and restricting mechanisms to cope with the surpluses generated by the Common Agricultural Policy.

Protected by variable import levies and stimulated to produce all-out by high support prices, EC farmers have made the EC a surplus producer of nearly all agricultural products except soybeans. As a result, their surplus disposal efforts threaten U.S. shares of third country markets and their import policies are hurting our export sales.

Last fiscal year, U.S. agricultural exports to the Community, our oldest market and traditionally our largest regional market, declined by 8 percent to \$8.8 billion. This occurred while shipments to all other markets went up in value by nearly 13 percent.

The problems created for the Community by the CAP are well understood within the Community. The rising costs — which now take about two-thirds of the entire EC budget -- are of crisis proportions, and CAP reform is being discussed. Some members are taking a responsible view, urging domestic rather than international solutions.

We hope they will prevail, and this becomes even more important to U.S. trade with the pending addition of Spain and Portugal to the EC.

The second market development mission by Secretary Block, made in October, was to Japan, South Korea and China. It is significant that these three markets combined have far surpassed the European Community as a market for U.S. agriculture, taking \$10.9 billion worth of U.S. farm products in fiscal 1981, nearly one-fourth more than the Community.

They are among our top 15 growth markets over the past five years, and they should continue to grow, with proper attention by U.S. Government and private agencies.

Japan, as you know, has been U.S. agriculture's top country market for years, with imports of U.S. farm products last fiscal year of \$6.7 billion. Around 85 percent of our shipments to Japan have been of bulk commodities, and Japan is consistently at or near the top as a market for U.S. wheat, corn, soybeans and cotton. Even so, restraints on imports impede export growth, an issue we intend to take up with the Japanese in 1982.

China and Korea, with agricultural imports from the United States totaling \$2.1 billion each last fiscal year, are indicative of the trend in the world agricultural market. The developing countries and the nonmarket economies have become major growth markets for trade.

Nearly 50 percent of all U.S. agricultural exports in the last fiscal year went to these developing and non-market countries, compared with 38 percent 4 years ago.

Five-year average growth rates for U.S. agricultural exports are over 30 percent to Eastern Europe, from 30 to 35 percent to Mexico and Venezuela in Latin America, and 30 to 40 percent to Egypt, Nigeria, and Saudi Arabia in Africa and the Middle East.

Mexico, in fact, has become our second largest market with imports of U.S. farm products exceeding \$2.7 billion last fiscal year.

Overall, we expect a slowdown in export growth to these centrally-planned and developing markets in fiscal 1982. Improved supply situations in some countries, particularly in Latin America, shortages of foreign exchange as a result of energy costs, the high costs of credit, and the uncertain financial situation in Poland, our largest customer in Eastern Europe, are likely constraints on trade growth.

However, shipments to these markets will grow, and with the return of the Soviet Union to the U.S. market and substantial growth of 20 percent in shipments to the Middle East and Africa in prospect, we project the increase will be 21 percent.

It seems clear to me that this year's export forecast should be studded with asterisks beyond the usual caveats of weather and the other uncertainties related to crop production in this and other countries. What will happen to interest rates, the exchange position of the dollar, and the direction of a sluggish world economy? To what degree will the Department's intensive export drive succeed, and can the trend toward trade restriction and distortion be stopped?

More than ever, the course of U.S. agricultural export trade will depend on our ability to maintain and expand foreign markets, as well as on worldwide supply and demand considerations.

U.S. AGRICULTURAL EXPORTS
FISCAL YEAR AVERAGES AND COMMODITY SHARES

Commodity	1969-71		1979-81	
	Value	Share of Total	Value	Share of Total
	Billion Dollars	Percent	Billion Dollars	Percent
Grain & Feed	2.350	34.1	17.870	46.1
Oilseeds & Products	1.790	26.0	9.370	24.2
Cotton, including linters	.400	5.8	2.397	6.2
Tobacco	.557	8.1	1.327	3.4
Seeds	.054	.8	.235	.6
Fruits, Nuts & Vegetables	.593	8.6	2.647	6.8
Sugar & Tropical Products	.368	5.4	1.035	2.7
Livestock Products	.571	8.3	3.131	8.1
Dairy Products	.147	2.1	.176	.5
Poultry Products	.058	.8	.560	1.4
TOTAL	6.888	100.0	38.748	100.0

U.S. AGRICULTURAL EXPORTS BY DESTINATION
AVERAGE 1969-71 and 1979-81

Area	1969-71		1979-81	
	Value	Share of Total	Value	Share of Total
	Billion Dollars	Percent	Billion Dollars	Percent
Developed	4.4	64	20.1	52
EC-9	2.0	29	8.4	22
Japan	1.0	14	5.9	15
Other	1.4	20	5.8	15
Developing	2.2	32	12.6	33
Oil exporting	.5	7	5.3	14
Non oil exporting	1.7	25	7.3	19
Centrally Planned	.2	3	5.2	13
USSR	--	--	1.7	4
China	--	--	1.8	5
Eastern Europe	.2	3	1.7	4
TOTAL 1/	6.9	100	38.8	100

1/ May not add due to rounding.

**U.S. agricultural exports: Value by commodity,
Fiscal years 1979-82**

**U.S. agricultural exports: Volume by commodity
Fiscal Years 1979-82**

Commodity	:	1979	:	1980	:	1981	:	Preliminary	Forecast
								Million metric tons	1982
Wheat	:	31.340	:	36.066	:	42.246	:	50.0	:
Wheat Flour	:	.877	:	.882	:	.949	:	1.0	:
Feed grains	:	59.504	:	71.159	:	69.004	:	74.1	:
Rice	:	2.397	:	2.955	:	3.172	:	2.6	:
Other grain products	:	.963	:	1.074	:	1.194	:	1.3	:
Feeds and fodders	:	4.304	:	6.242	:	5.820	:	5.8	:
Soybeans	:	20.194	:	23.833	:	19.972	:	22.9	:
Soybean meal	:	5.996	:	7.175	:	6.140	:	6.7	:
Other oilcake and meal	:	.294	:	.425	:	.450	:	.5	:
Soybean oil	:	1.059	:	1.220	:	.739	:	1.0	:
Other vegetable oils	:	.460	:	.596	:	.838	:	.9	:
Sunflower seed	:	1.342	:	1.927	:	1.426	:	1.4	:
Cotton, including linters	:	1.396	:	2.047	:	1.265	:	1.6	:
Tobacco	:	.287	:	.283	:	.252	:	.3	:
Fruits, nuts and vegetables	:	2.808	:	2.967	:	3.249	:	3.6	:
Beef, pork, & variety meats	:	.326	:	.345	:	.447	:	.4	:
Poultry meat	:	.208	:	.320	:	.395	:	.4	:
Animal fats	:	1.276	:	1.508	:	1.515	:	1.5	:
Other	:	2.430	:	2.853	:	3.540	:	4.0	:
Total	:	137.461	:	163.877	:	162.613	:	180.0	:

U.S. EXPORTS AND TRADE BALANCES

Fiscal Year	Total U.S. Exports	Agricultural Exports	Agriculture as percent of Total Exports	Agricultural Trade Balance	Total Trade Balance
	Million Dollars	Million Dollars	Percent	Billion Dollars	Billion Dollars
1970	41,295	6,958	16.8	+1.3	2.2
1971	43,883	7,955	18.1	+1.8	-1.0
1972	44,875	8,242	18.4	+2.3	-7.0
1973	62,743	14,984	23.9	+7.2	-2.5
1974	90,431	21,608	23.9	+11.6	-2.4
1975	104,034	21,854	21.0	+12.4	+5.2
1976	111,280	22,760	20.5	+12.2	-3.2
1977	118,285	23,974	20.3	+10.6	-24.4
1978	131,196	27,290	20.8	+13.4	-33.6
1979	167,606	31,975	19.1	+15.8	-26.0
1980	210,234	40,481	19.3	+23.2	-26.3
1981 <u>1/</u>	229,228	43,788	19.1	+26.7	-26.3

Preliminary.

U.S. TOTAL AND AGRICULTURAL IMPORTS

Fiscal Year	Total U.S. Imports	Agricultural Imports	Agriculture as percent of Total Imports	Competitive	Non-competitive
	Million Dollars	Million Dollars	Percent	Million Dollars	Million Dollars
1970	39,065	5,686	14.6	3,492	2,194
1971	44,872	6,128	13.7	3,817	2,311
1972	51,862	5,936	11.4	3,974	1,962
1973	65,258	7,737	11.9	5,014	2,723
1974	92,841	10,057	10.8	6,713	3,344
1975	98,767	9,470	9.6	6,609	2,861
1976	114,511	10,514	9.2	6,305	4,209
1977	142,648	13,357	9.4	6,554	6,804
1978	164,802	13,886	8.4	7,314	6,572
1979	193,621	16,187	8.4	9,075	7,111
1980	236,581	17,276	7.3	9,949	7,351
1981	255,536	17,218	6.7	11,318	5,900

EXPORTS AS PERCENTAGE OF PRODUCTION FOR SELECTED COMMODITIES

Commodity	1970	1980
	Percent	
Wheat, including products	55	64
Rice	52	63
Cotton	38	53
Soybeans, including meal	53	51
Grain Sorghum	21	51
Dry Edible Beans	19	49
Almonds	23	44
Tobacco, unmanufactured	30	38
Corn	12	36
Walnuts	7	23
Raisins	34	22
Poultry	2	6

XXII. Transportation Issues

1. Deregulation

After 100 years of economic regulation of rail rates and service, the railroads now are free from Federal regulation in many areas of pricing and service. This is presenting a whole new range of problems for agricultural shippers, both large and small. The Office of Transportation is providing assistance to shippers in understanding more about the opportunities and challenges of marketing within a transport deregulated system. OT is also monitoring abuses and participating, when necessary, in regulatory cases where the interests of agriculture are affected. The Office has initiated a major project which will assess the impact on agriculture of rail and motor carrier regulatory reform. The results of this project will be available by June, 1982.

2. Exports

OT is providing assistance daily to exporters and to firms who would like to enter exports by helping to solve transportation problems. In addition to inland transportation, efforts are combined to include ocean and air transportation. Through such efforts, OT has been instrumental in bringing about a greater awareness of the marketing opportunities of exporting livestock as well as traditionally exported agricultural products.

A major aspect of the OT export assistance program is its technological research, which, in cooperation with industry, is designed to improve equipment and techniques for transporting agricultural products

from the farm to domestic and overseas markets. Work conducted thus far on exports indicate large potential savings in such areas as livestock, grain, and fruit.

3. Intermodal Coordination

Rapidly rising costs in all modes of transport, abetted by sharp increases in fuel prices and general inflationary trends, have stimulated carriers and shippers alike to seek out means which would improve efficiency in transport and impact favorably upon costs. One such recognized means is by greater intermodal coordination, a program in which the Office of Transportation is at the forefront. Among studies recently completed by OT in this area are: Shipping Maine Potatoes to Eastern Markets (exploration of opportunities to coordinate shipments of Maine potatoes with fruits and vegetables out of California and Florida), and shipping alternatives for moving Florida fruits and vegetables to eastern and midwestern markets (analysis of TOFC--trailer-on-flat-car service--as an alternative to full dependency on truck).

4. Improved and New Technology

OT devotes a substantial amount of its research effort to improving existing technology or developing new technology which will permit agricultural products to be transported over long distances at less loss or damage and often times at less cost than conventional methods or facilities. Among the research underway is that of rail piggyback demonstration shipments of lettuce from Fresno, California, to Landover, Maryland and West Germany. The test refrigerated van incorporates all of the USDA recommended design criteria, plus a modified atmosphere control system. Initial shipments in the van, which is designed to load cargoes at field temperatures and precool in transit, indicate a savings of about \$520 per load in precooling charges and \$400 a load in shipping costs over regular

truck shipments from California to Maryland. Test shipments from California to West Germany carried 800 cartons of lettuce for the same transportation cost as the Defense Department is now paying for 550 cartons (their regular load). Losses due to spoilage were also reduced from 10 percent to 1.8 percent.

In response to current regional and national interest, the Office of Transportation is beginning a prefeasibility study on the Grain Relocation and Transfer Equipment (GRADE) project. This study seeks to determine the possible application of new technology to bypass lock and dam systems in the eventuality of natural or war-caused catastrophies. Recent and anticipated delays at locks and dams on the nation's major river systems has generated growing interest, especially among many upper Midwestern states, in the development of alternative transportation systems for grain movements.

XXIII. Immigration Policy

Current Situation

Presently an estimated 3 to 12 million illegal aliens are in the United States. Approximately 300,000 - 500,000 of these illegals (primarily Mexican) work in agriculture. Illegal aliens have virtually no rights, are easily exploited, and are subject to deportation if reported. Agricultural producers who use illegals risk losing the laborers at critical times if the border patrol conducts a raid.

The "H-2 program" - a temporary worker program - is used by some producers. This program allows aliens to enter the U.S. for temporary work. Aliens can only work in enterprises with insufficient domestic workers and where wages will not be adversely affected. About 18,000 temporary agricultural jobs are filled under the H-2 program.

Administration's Proposal

In July, the President sent a comprehensive immigration and refugee control proposal to Congress. The main elements that affect agriculture are: (1) penalties for employers who knowingly hire illegal aliens; (2) an amnesty (legalization) program for aliens who have resided in the U. S. continuously since January 1, 1980; and (3) a pilot temporary/guestworker program for 50,000.

The agricultural industry is actively interested in the proposal. Producers are concerned about the possibility of sanctions and whether the program will supply sufficient labor to harvest crops. The temporary worker program is too small (only 50,000) to meet agricultural needs, and the legalization program may not help true migrants who work seasonally then return to Mexico.

The Secretary requested in June that USDA play an active role in agricultural labor issues. The USDA supports the Administration's proposal, but wants to assure that the proposed program will allow an adequate, timely supply of legal labor for agriculture.

Source: Office of the General Counsel

3/11/82

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COMMODITY OUTLOOK AND SITUATION REPORT

I. General Information

II. Crops

- A. Sugar
- B. Vegetables
- C. Fruit
- D. Tobacco
- E. Soybeans
- F. Rice
- G. Cotton
- H. Feed Grains
- I. Wheat

III. Livestock

- A. Broiler Outlook
- B. Turkey Outlook
- C. Dairy Outlook
- D. Egg Outlook
- E. Cattle Outlook
- F. Hog Outlook

U.S. AGRICULTURAL OUTLOOK ISSUES

World Sugar Outlook

The world (f.o.b. Caribbean-Contract No. 11) price for raw sugar weakened to 11.2 cents in March, from 13 cents in February, on reports that the USSR is holding off on purchases (despite a poor 1981/82 crop), and that the European Community will have a larger crop than anticipated. The drop in the price of gold could also be a factor in weakening the price of world sugar denominated in U.S. dollars.

World production and consumption this season continue to be estimated at 95.8 million metric tons and 92 million respectively. Based on the prospective addition of about 3 1/2 million tons to global sugar stocks, the world price for raw sugar appears likely to be relatively low--12 to 16 cents a pound in calendar 1982. Price prospects depend importantly on the size of the 1982/83 world sugar crop. The European Community's plan to stockpile as much as 2 million tons of sugar in 1982, and an associated reduction in plantings, would be a key factor.

ERS - April 8, 1982

U.S. AGRICULTURAL OUTLOOK ISSUES

U.S. Sugar Production, Consumption, and Prices

U.S. production of cane and beet sugar (excluding Puerto Rico) totaled 6.2 million short tons in 1981/82--up 8 percent from last season despite freeze damage in the Red River Valley (Minnesota-North Dakota) and in Florida. According to USDA's survey of prospective plantings, released February 18, sugarbeet acreage could drop 7 percent in 1982/83, largely from a 22 percent decline in California. Sugarbeet acreage in Minnesota is expected to be about the same as in the previous two seasons, at about 260,000 acres.

The 1981 Farm Bill provides for a sugar purchase agreement at 16.75 cents a pound raw sugar in 1981/82, and a loan program for the 1982/83-1985/86 crops at loan rates of 17.00 cents, 17.50 cents, 17.75 cents, and 18.00 cents a pound, respectively. Retail prices for refined sugar fell to 32.5 cents a pound in December, down for the twelfth consecutive month, but rose slightly in January and February. With the U.S. sugar program, retail prices are forecast to increase in the following months and could average 36 cents a pound in 1982, compared with 40 cents in 1981.

The domestic price of raw sugar (c.i.f., duty/fee-paid, New York) slipped to 17 cents in March as a result of discounting of earlier-imported sugars and sugars entering under the Generalized System of Preferences (GSP--duty free). The current duty on raw sugar is at the legal maximum of 2.8125 cents a pound. The import fee is 3.07 cents a pound and is likely to increase by a cent during April.

In 1982, U.S. sugar output could fall 5-10 percent, assuming a return to normal yields and lower acreage despite implementation of a U.S. sugar program.

U.S. consumption of sugar in 1981 is estimated at 9.77 million tons, down nearly 420,000 tons from last year. U.S. sugar use will likely fall another 1 to 3 percent in 1982 while consumption of high fructose corn syrup (HFCS) could rise 12 percent.

Imports of raw sugar are expected to drop by more than 1 million tons in 1982 as a result of a steep drop in U.S. exports of refined sugar, the continued downtrend in U.S. sugar consumption, and the surge in imports during the fourth quarter of 1981 in anticipation of a U.S. sugar program.

Minnesota

U.S. AGRICULTURAL OUTLOOK ISSUES

Vegetables

The production of winter potatoes is estimated at 2.32 million cwt, 6 percent greater than last year's record-low crop. Meanwhile, harvested area of spring potatoes is forecast to be 77,800 acres, nearly equal to last year. Stocks of fall potatoes on March 1 totaled 107 million cwt, up a tenth from a year ago. Growers received an average of \$4.86 a cwt for potatoes during March (\$4.20 in Minnesota), compared with \$8.12 (\$9.50 in Minnesota) a year earlier. The February consumer price index for potatoes stood at 297.4 (1967=100), down 15 percent from last year. The current large stocks of fall potatoes will keep grower and retail prices well under last year's at least through the summer.

Fresh vegetable prices are expected to decline seasonally this spring from the first quarter's high levels as more abundant supplies become available. The index of prices received by growers for fresh vegetables (excluding potatoes) stood at 126 (1977=100) in mid-March, down over a fifth from February and 28 percent less than a year ago. The ERS retail price index for fresh vegetables (excluding potatoes) reached an alltime high of 202 (1977=100) in February, a 37 percent rise over a year ago.

U.S. AGRICULTURAL OUTLOOK ISSUES
Fruit

After a moderate increase to 148 in February, the index of prices received by growers for fresh and processing fruits declined to 144 in March. Lower prices for grapefruit and strawberries contributed most to the decrease. Higher prices for lemons, pears and apples were partially offsetting. However, the index is still 18 percent above a year earlier due to substantially higher prices of oranges and noncitrus.

Fruit prices are expected to advance seasonally during late spring and early summer and will remain above a year ago, reflecting reduced supplies of citrus and apples. In addition, the recent adverse weather in the Southeast and West could reduce supplies of summer fruits. Freezing temperatures in late March and early April damaged apple and peach crops in Georgia and South Carolina. California's fruit showed damage from hail while poor pollination weather also adversely affected some summer fruit prospects. However, it is still too early to assess the extent of the damage.

The April 1 citrus crop estimates at 12.6 million tons, was 16 percent less than last season, with smaller crops reported for all citrus except grapefruit and tangelos. Remaining supplies of lemons and oranges during the balance of the season are sharply smaller than the 1980/81 season, while those of grapefruit are considerably larger. In response to smaller supplies, f.o.b. prices for fresh oranges and lemons so far this season have averaged moderately to substantially higher than last season and are expected to remain so throughout the season.

The substantially smaller 1981 crop has resulted in considerably smaller stocks of apples in cold storage. Prices have been sharply above a year ago and will remain so during the balance of the season.

ERS - April 21, 1982

U.S. AGRICULTURAL OUTLOOK ISSUES

Tobacco

The most notable development for tobacco in 1981 was the review of the tobacco price support and quota authority by the U.S. Senate and House of Representatives. Amendments to significantly change or eliminate the program were defeated, but virtually all features of the program will be reviewed and subject to legislative change later on.

There are no direct Government payments to tobacco producers. Rather, loans are made to cooperative associations to pay advances to growers for tobacco that does not sell for at least the support rate. Loans are repaid with interest. Historically, the cost to the Federal Government has been small; only \$57 million or 1 percent of loan principal has failed to be repaid since the program began in 1938. Also, a recent change in the law requires tobacco producers to pay the full cost of grading and inspection services that historically have been borne by the Federal Government.

The Agriculture and Food Act of 1981, PL97-98, mandates that USDA operate the tobacco program at no cost except for administration. Congress has directed USDA to take administrative actions within USDA authority and recommend to Congress any needed legislative changes by January 1982. USDA is currently developing the necessary administration regulations and preparing a report to Congress.

Minnesota

U.S. AGRICULTURAL OUTLOOK ISSUES

Soybeans

The harvest of a 2.03 billion bushel crop has helped make U.S. soybean supplies the second largest on record. While a supply of this size would be expected to put downward pressure on prices, the plunge to the lowest real price levels in over a decade is also a reflection of underlying weak demand throughout the complex, particularly in the domestic markets.

Demand for soybeans for domestic crush depends primarily on domestic demand for products, mainly meal. Crush demand is reflected by crushing margins--the difference between the value of the products from a bushel of soybeans and soybean price per bushel. A sluggish U.S. economy has tempered domestic demand for products, contributing to the sharp decline in product prices. As a result, crushing margins have been squeezed. Soybean crushings are currently forecast to increase only 2 percent to 1.06 billion bushels.

Soybean exports through January 1982, are almost 30 percent above last year's levels. For the season, exports are forecast to reach 850 million, up from 724 million in 1980/81.

Even with the strong recovery in the export market, total soybean disappearance for the season may be up only 8 percent to 2 billion bushels, while supplies are up 9 percent. This supply/demand imbalance would result in a 350 million bushel carry-over, the equivalent of a 10-week supply at current use rates. With abundant supplies relative to demand, the season-average farm price is projected at \$6.05 per bushel, down from \$7.57 for 1980/81.

Minnesota

U.S. AGRICULTURAL OUTLOOK ISSUES

Rice

The total U.S. supply of rice for the 1981/82 marketing year rose to a record 202 million cwt., as the result of a record 1981 harvest. Although domestic use may expand modestly, U.S. exports are expected to be down slightly because of the record 1981/82 rice harvest by major importing nations. In response, the U.S. will experience a dramatic buildup of rice stocks. This bumper supply will significantly depress 1981/82 rice prices below last season's average farm price of \$12.90 per cwt., possibly to around \$9.75 per cwt.

The target price for rice is \$10.68 per hundredweight (CWT) in 1981/82 up from \$9.49 for 1980/81. Deficiency payments on production from rice allotments were \$0.28 per cwt. For 1981-crop rice the national acreage allotment is 1.8 million acres.

Minnesota

U.S. AGRICULTURAL OUTLOOK ISSUES

Cotton

The 1981 cotton crop was 15.6 million bales, the largest crop since 1953. The estimated yield of 546 pounds per harvested acre was just a pound shy of the record set in 1979, and 142 pounds greater than the 1980 yield.

Slow economic activity here and in major foreign textile markets is limiting increases in cotton use during 1981/82. U.S. textile mills are expected to consume 5.4 million bales, 9 percent below 1980/81. U.S. exports of cotton are forecast at 6.8 million bales, 0.9 million above last season.

So, with production exceeding disappearance, stocks on August 1, 1982, could be around 6.3 million bales, sharply above this season's beginning level of 2.7 million. Reflecting this stock buildup, cotton prices have been declining for several months. Spot prices are about a third below a year earlier. In mid-March farm prices averaged 46 cents a pound, compared with a year-earlier price of 72 cents.

Deficiency payments of 7.67 cents a pound were made to eligible upland cotton producers since the average farm price for calendar 1981 was below the target price of 70.87 cents a pound. These payments total about \$480 million.

Minnesota

U.S. AGRICULTURAL OUTLOOK ISSUES

Feed Grains

Corn production is estimated at 8.2 billion bushels, up 23 percent from last year, and the largest crop ever. The 1981 yield of a record 109.9 bushels per acre compares with 91.0 bushels in 1980 and 109.7 in 1979. Corn supplies for 1981/82 are forecast at 9.2 billion bushels, 12 percent above 1980/81. Total feed grain supplies of 283 million tons would be 13 percent above a year earlier.

The 1981/82 corn feed use estimate is 4.25 billion bushels, up slightly from a year ago. Exports of corn are forecast at 2.13 billion bushels down 230 million from 1980/81.

For 1981/82, carryover stocks of corn may increase to 2.08 billion bushels, over 1 billion above the 1980/81 level. Projected feed grain stocks of 65 million tons would be 85 percent above a year earlier. Corn prices during 1981/82 may average \$2.40 to \$2.55 per bushel, compared to a 1980/81 average price of \$3.11.

Placements into the farmer-owned reserve have been much above expectations in the past several weeks. As a result, the feed grain reserve estimate has been raised to 38 million tons compared with the previous estimate of 20 million. About 1,250 million bushels of corn or 60 percent of this season's carryover could be in the reserve.

U.S. AGRICULTURAL OUTLOOK ISSUES

Wheat

Winter wheat growers provided the first clue to the size of the 1982 U.S. crop by planting over 66 million acres last fall. Although up only slightly from 1981, this is the largest winter wheat acreage in history. Based on this acreage and early estimates of good-to-excellent crop development, production is forecast at a record 2.13 billion bushels for 1982. However, the final outcome of the harvest rests on the weather and grower's participation in the government's 15-percent reduced-acreage program. Spring wheat growers burdensome yearend stocks will heavily influence producers' decisions to comply with acreage reduction requirements.

The U.S. marketing season is well past the halfway mark, and disappearance was a record-setting 1.6 billion bushels during June-December. In perspective, as recently as 1976/77, wheat disappearance was only 1.7 billion for the entire year. The nearly 1-billion-bushel disappearance expected for the remainder of the season means that ending stocks will be up about 130 million from a year earlier, exceeding 1 billion bushels for the first time in 4 years.

Wheat farm prices are expected to average around \$3.70 a bushel for 1981/82, 21 cents below last season. Farm prices are currently around \$3.70, 50 cents below a year-earlier.

U. S. AGRICULTURAL OUTLOOK ISSUES

Broilers

Broiler producers have been in a cost-price squeeze since mid-1979, with the exception of the third quarter of 1980. In 1981, increased feed costs during the first half of the year and lower broiler prices in the last half of the year kept producer returns negative. The large corn and soybean crops last fall, along with reduced export demand, have moderated feed costs, and will likely keep these costs below 1981 during most of 1982. Total costs are expected to rise slightly, reflecting continued inflation, but the lower corn and soybean meal prices may moderate the increase. Beginning in the second quarter of 1982, strengthening pork prices are expected to help increase broiler prices and enable profitable production.

The long period of adverse returns is causing producers to slow the rate of increase in broiler production. Pullet chick placements for hatchery supply flocks have declined from year-earlier levels. In February, placements were 21 percent below last year. Cumulative placements of pullet chicks 7 to 14 months earlier will be down 1 percent in the second quarter of 1982 from year-earlier levels and 3 percent below 1980 levels. Cumulative placements in the hatchery supply flock give an indication of producers' intentions, but they can use the hatching eggs for purposes other than hatching, and can delay culling of old hens if they need more eggs.

The slowing of the increase in the hatchery supply flock suggests producers will reduce output gains in 1982. Slaughter in Federally-inspected plants during February was 4 percent above last year. Output in the first quarter of 1982 is expected to be up 1 to 3 percent from 1981. Since late January egg sets have been below comparable periods last year and the resulting chicks placed for second quarter slaughter have been down 2 percent. Output in the second quarter is expected to be about 1 percent below last year. If profits are realized in the second quarter, output may move above last year in the second half of 1982.

Tight consumer budgets and plentiful supplies of total meats weakened broiler prices in 1981. With prospects for continued tight budgets during the first half of 1982, but with some easing in the second half, broiler prices are expected to average 3 cents above 1981's, with the modest gains in output.

Broiler prices in the 9 cities averaged 45 cents per pound in January-March 1982, down from 49 cents last year. As demand for broilers picks up seasonally this spring and summer, the 9-city prices will advance, and average 1 to 3 cents above the 47-cent average during April-September 1981.

U.S. AGRICULTURAL OUTLOOK ISSUES

Turkeys

Preliminary estimates indicate turkey producers lost money in the third and fourth quarters of 1981. Producers have responded by decreasing the number of poults hatched since June, especially the light breed turkeys. Producers of heavy breed turkeys (normal mature marketing weight 12 pounds or over) increased the number of poults hatched in October and November but have cut back since then.

The inventory of breeder hens was down 9 percent on December 1, 1981 from 1980. The largest drop was in light breed hens at 31 percent; heavy breed hens were down 7 percent. Turkey growers in 20 major producing States reported that they intended to raise 4 percent fewer turkeys in 1982 than they did in 1981. The number of eggs in incubators on March 1 would support the intentions report, because they were 14 percent below a year earlier.

Output of turkey meat during February was up 3 percent from last year. Since the number of heavy breed turkey poults hatched for first-half 1982 slaughter has not been down, turkey output will likely be down only about 1 percent from 1981 production. If profit prospects continue unfavorable and producers follow through with their December intentions, as suggested by the February hatch, production in the last half of 1982 may be down 6 to 8 percent.

Prices for 8- to 16-pound young hen turkeys in New York averaged 56 cents in March, down from 64 cents last year. Continued large cold storage stocks, plus the weak economy, are expected to keep prices weak in the first half. Prices of young hen turkeys in New York during January-June are expected to average in the upper 50-cent range, compared with 62 cents in 1981. Second-half prices will depend on the movement of turkey meat in the first half, second half production, and red meat prices. However, they are expected to average well above the low prices of July-December 1981.

U.S. AGRICULTURAL OUTLOOK ISSUES

Dairy

Milk production this winter has continued above year-earlier levels, with March marking the 35th consecutive month of a year-over-year increase. Total production during January-March (second quarter of the marketing year) totaled 33.0 billion pounds, a 1.8 percent increase from a year earlier. When added to October-December, production for the first half of the marketing year totaled 65.0 billion pounds, a gain from a year earlier of 2.4 percent.

Since mid-fall, prices for major feed ingredients have been stable but substantially below a year earlier because of excellent harvests. So, even with no increase in milk prices, milk-feed price relationships favor concentrate feeding. In addition, the improved genetics of the dairy herd is heightening the effect of heavy concentrate feeding. As a result, output per cow will increase this year. Also, because of limited income alternatives (both off the farm and from other farm enterprises), culling will remain low relative to replacements. Thus, milk cow numbers are expected to remain above a year earlier during 1982. On balance, production will likely continue to expand during the rest of 1982, and total output may be up 1.5 to 3 percent from 1981's record 132.6 billion pounds.

Gains in farm milk prices have stopped. The all-milk price averaged \$13.70 per cwt. during March, 10 cents below last year, compared with a year-over-year gain of \$1.00 (7.8 percent) in March 1981. The all-milk price averaged about \$13.75 for 1981, up nearly 6 percent from 1980. In 1982, the all-milk price average is expected to be slightly below 1981. First-half prices may average slightly below a year earlier, because ample production is expected. First quarter prices on average were about 1 percent below first quarter 1981. However, second-half prices may be somewhat higher, with the third quarter about even with July-September 1981 and the fourth quarter up 1 to 2 percent from a year earlier. A 15-cent higher support price and some possible adjustment in production would bring this about.

Large supplies and no change in CCC purchase prices have limited price gains for dairy products. In March, the BLS index of wholesale dairy prices was up 1.4 percent from a year earlier. For all of 1981, the wholesale index was up 6.5 percent, compared with a 9-percent jump in 1980. Wholesale dairy prices are expected to remain near present levels until late summer and then may move somewhat higher because of an improving general economy, a small increase in CCC purchase prices, and a better supply-demand balance near yearend.

Similar to wholesale prices, those in retail markets have been languid. In February, the BLS index for retail dairy prices was up less than 2 percent from a year earlier, the smallest increase since mid-1975. For 1981, the retail index rose around 7 percent. During 1982, retail dairy prices are expected to reflect stagnant wholesale prices, but may increase 2 to 4 percent because of higher marketing costs.

Commercial disappearance of dairy products (milk equivalent) during 1981 was 1 percent more than a year earlier, but unchanged from the 1979 levels. During January-February disappearance was up over 5 percent but for all of 1982 use is expected to rise 1 to 2 percent. This improvement would result from relatively small price gains throughout 1982, and an improving general economy and consumer income picture during the second half of the year.

For fiscal 1981, USDA net removals were equivalent to 12.7 billion pounds of milk, compared with 8.2 billion a year earlier--an increase of over 50 percent. For fiscal 1982, net removals are forecast between 11 and 16 billion pounds. During October-March, the first half of fiscal 1982, removals totaled 6.3 billion, compared with 5.7 billion purchases a year earlier.

U.S. AGRICULTURAL OUTLOOK ISSUES

Eggs

Egg producers made some money in the fourth quarter of 1981, as they did in 1980. However, in the remaining 3 quarters of both years, costs exceeded returns. In 1981, the number of replacement pullets was reduced because returns were unfavorable. When prices began to rise, producers reduced culling of old hens, which limited egg price gains and maintained output. As feed costs have declined with the large corn and soybean harvest, returns have been favorable. If other production and marketing costs do not rise enough to offset feed price declines, producers should have favorable returns in 1982.

Egg production during February was 1 percent below last year because the number of hens was down. Egg production in the first half of 1982 may decline slightly --by 1 percent--because of the number of hens available. The number of replacement pullets will trail a year earlier at least through August 1982. Pullets hatched during February--which will be producing in August 1982--were 2 percent below 1981. With favorable returns, producers should be encouraged to delay culling of old hens to maintain output. The rate of lay will likely continue near year-earlier levels. The older hens kept in the laying flock will likely reduce the rate of lay, and the lack of as many young replacement pullets will not increase the rate, which has risen fairly steadily in the past.

Prices for cartoned Grade A large eggs in New York averaged about 79 cents per dozen in March, up from 71 cents in 1981. Egg prices during first-quarter 1982 averaged 79 cents per dozen, up from 73 cents last year. Prices this spring probably will stay above last year, but should decline seasonally to the low 70-cents-a-dozen range.

U.S. AGRICULTURAL OUTLOOK ISSUES

Cattle

Poor weather and muddy feedlots combined with increased nonfed steer and heifer slaughter, has resulted in dressed carcass weights in March averaging 20 to 25 pounds below a year ago. Despite the weather setbacks the smaller number of cattle are being marketed about on schedule, but at lighter weights.

The number of cattle on feed in the 7-major cattle feeding States on March 1 was 4 percent below last year and 8 percent below March 1, 1980. Marketings during February declined 2 percent. Placements of cattle on feed continues well above a year ago for the third consecutive month. Larger numbers of cattle which were overwintered on the favorable forage supplies have been marketed since early January as the accumulated supplies have been exhausted. Stronger cattle prices and lower costs of gains have provided further incentives to increase placements. Placements likely increased again in March as the wheat grazing season ended in the Southern and Central Plains and feeder cattle marketings were well above a year ago.

Choice steer prices at Omaha increased from \$58 per cwt in early January to the upper \$60's in early April as lower slaughter and lighter slaughter weights reduced total meat supplies. Milder weather is likely to increase marketings and hold down price gains. For the quarter, prices averaged near \$63 per cwt. Prices this spring are expected to average \$67 to \$69 per cwt as total meat supplies decline further. Evidence of a strengthening economy should encourage increased feedlot placements this spring and summer, holding down nonfed slaughter. Feeder cattle prices are likely to remain sensitive to higher interest rates or signs of a lackluster economic recovery. Yearling feeder cattle prices are expected to average near fed cattle prices this winter, and to move to a premium with fed cattle prices this spring. Lighter-weight feeder cattle prices could advance even more, particularly, if conditions for a favorable grazing year continue to develop across the country.

Choice fed steer and carcass beef prices have increased from early January and a year ago. However, retail prices remain near to slightly below year-earlier averages. Retail prices are expected to rise through spring, but constrained consumer budgets will hold down further increases in live animal prices this spring.

U.S. AGRICULTURAL OUTLOOK ISSUES

Hogs

The March inventory of hogs and pigs in the 14 quarterly reporting States was down 10 percent from a year ago. The market hog inventory was down 10 percent and the breeding herd was down 14 percent. This inventory indicates substantial year-to-year decreases in pork production for the remainder of the year. The December-February pig crop was down 11 percent. The number of sows farrowed declined 10 percent and the number of pigs saved per litter was off 2 percent because of the extremely cold weather and related disease problems.

Although first-quarter returns improved substantially, producers as of March 1 plan to reduce farrowings 14 percent during March-May. With improved returns, many producers are repaying loans made since the mid 1970's for expanding facilities. Over the past 3 years, poor returns caused cash flow problems for producers and they extended payments on existing loans.

The smaller production in 1982 will boost hog prices. The increase will be limited by moderate growth in the economy. Competing meat supplies are expected to be about the same as last year.

Commercial pork production in the first quarter was 9 percent below a year earlier. Less pork, along with little year-to-year change in competing meat supplies, strengthen hog prices. Barrows and gilts at the 7-markets averaged \$48 per cwt, an increase of \$7 from a year earlier.

In the second quarter, pork production is forecast to be 3 to 10 percent below a year ago. Low stocks and reduced production, along with a small reduction in competing meats, should support an average price in the low \$50's per cwt despite the expected sluggish economy.

In the third quarter, pork production is forecast to be 12 to 14 percent below last year. Barrow and gilt prices are expected to rise into the middle \$50's per cwt.

NEW PROGRAMS

- I. Crop Insurance Program
- II. Beginning Farmer and Rancher Project
- III. Rural Development Program
- IV. Soil and Water Conservation
 - Proposed Preferred USDA program
- V. Small Farms
 - Extension program for New England



I. Crop Insurance Program*

In view of the importance of the crop insurance program to farm producers and our national economy, the Federal Crop Insurance Corporation is implementing a number of program improvements. The previous organization and delivery systems may have been adequate to handle a 12% participation rate; however, our higher participation goals require a more comprehensive and efficient organization. The Corporation's expansion and implementation plans encompass the following program improvements:

1. Individual Yield Coverage Program -Under an innovative program currently being developed, farmers who believe that insurance coverage provided to them is based upon unrealistically low average yields will be provided the opportunity to substantiate higher average yields.

FCIC is developing a new individualized yield coverage program for the six disaster crops of corn, wheat, cotton, grain sorghum, rice, and barley, plus soybeans, beginning with the spring 1982 crops. Under this program all farmers will have an opportunity to substantiate higher average yields by verifying those yields through their local Agricultural Stabilization and Conservation Service (ASCS) office.

* Testimony given by Wayne Fletcher, President Federal Crop Insurance Corporation.

2. Evaluation of Rating Structure - The legislation requires FCIC to charge premium rates that are adequate to cover expected losses and provide for a reasonable reserve against unforeseen losses. Achieving such a rating structure is a formidable task.

With this in mind, FCIC has initiated an all-encompassing study of its system of establishing rates.
3. Strengthen Quality Assurance - A stronger method of quality assurance is being implemented to assure that all farmers are buying and receiving the same program benefits. The variety of delivery systems make this essential for long-range program satisfaction and participation.
4. Streamline Program Administration - A simplified method of processing documents is being studied so that FCIC can provide faster and better service to farmers at significant cost savings. This will include a streamlined application process with a multi-crop application form.
5. Management Information System - Implementation of a complete management information system responsive to Departmental, Congressional, private industry and farmer requests is essential to the success of the insurance plan. An initial stage of this system is expected to be in place for the 1982 crop year.
6. Research Projects - As demand warrants and data permits, FCIC will initiate research projects leading to the development of insurance programs on farm commodities other than the 28 now covered by insurance. Such projects already are under way for catfish farming, forest trees, and citrus trees. Cooperation from other USDA agencies in some of these projects will be required.

I. Crop Insurance Program*

Mr. Chairman, the Federal Crop Insurance Corporation has been asked to testify as to the extent the Federal Crop Insurance program will protect farmers from new pest hazards such as Mediterranean Fruit Fly (or Medfly) as it is more commonly called.

The Federal Crop Insurance program, administered by the Federal Crop Insurance Corporation (FCIC), presently insures 28 growing crops against loss of production from unavoidable natural causes. Our insurance policy does not cover losses attributed to neglect, poor farming practices, or theft. Furthermore, our insurance does not cover financial losses resulting from loss of market or from low prices received for farm crops.

The 22 field crops of barley, beans, corn, cotton, flax, forage production, forage seeding, grain sorghum, oats, peanuts, peas, potatoes, rice, rye, soybeans, sugar beets, sugarcane, sunflowers, sweet corn, tomatoes, tobacco and wheat are covered by the traditional "all-risk" insurance policies which provide protection from all insects, diseases, and adverse weather conditions as well as wildlife depredation, earthquake and fire.

The other six insurable commodities are the specialty crops which include: almonds, apples, citrus, grapes, peaches, and raisins.

Normally, insects and diseases are deleted from these specialty crop policies because it is generally considered a recognized good farming practice to control insects and disease through a good spray program or through integrated pest management. Growers and grower groups generally feel that an insurance program covering causes that are to a great extent controllable

* Statement of Wayne A. Fletcher, President Federal Crop Insurance Corporation.

may cause some growers to do a poorer job of controlling their insects and/or diseases, particularly if the insurance is less expensive than a sound spray program. This would place a heavier burden on those growers who maintain their spray programs to control their insects and diseases.

Other growers who are more concerned with premium rates may not wish to be provided the additional protection if premium rates would increase to cover the anticipated losses.

Due to the unknowns about the Mediterranean Fruit Fly (Medfly) at the time our 1981 Arizona-California Citrus Policy was prepared, the growers requested the addition of Medfly as an insurable cause of loss.

Amendments are currently being prepared to add Medfly protection to the regulations covering grapes and almonds for 1982. The Florida and Texas citrus and the California raisin regulations are being reviewed for 1982 and the Medfly may also be added as an insurable cause of loss.

One of the main concerns of producers is that their crops may be quarantined due to the Medfly even though their production may contain no Medfly damage. The Medfly damage as a cause of loss only applies to actual fruit damage and not to a quarantine imposed throughout an area. In cases where fruit was not damaged but still quarantined there would be no cause of loss and, therefore, no protection as quarantine itself is not considered a natural hazard, but rather a marketing hazard.

Since the Arizona-California Citrus insurance period does not extend beyond harvest, any fruit rotting as a result of any delay in marketing fruit awaiting fumigation would be treated as an uninsurable cause of loss. The FCIC policy

claims provisions require the insured to establish the total production of citrus on the unit and that any loss of production was directly caused by one or more of the insured causes during the insurance period. It is thus the insured's responsibility to establish that there actually is Medfly damage to the citrus on the unit before an indemnity will be paid.

Thank you, Mr. Chairman. I will be happy to answer any questions the Committee may ask.

I. Crop Insurance Program

HOW DOES ALL-RISK CROP INSURANCE WORK?

Farmers can insure their crops for 50, 65, or 75 percent of the average county yield. If their harvest yield is less than the insured level because of natural conditions, the insurance pays the difference.

You select your own rate of payment by selecting one of three levels of payment when you buy the insurance.

Growers get special low-cost premium rates because the Government pays 30 percent of the premium cost up to the 65 percent coverage level.

WHAT CROPS DOES ALL-RISK CROP INSURANCE COVER?

For the 1981 crop year it covers 28 major crops in 40 states--in 2,000 of the Nation's 3,000 counties. It will be expanded to other crops and other counties next year by the Federal Crop Insurance Corporation (FCIC) to include 28 major crops in 2,900 counties in 49 states.

WHERE CAN FARMERS GET THE INSURANCE?

The County ASCS office and the County FCIC office have lists of qualified local agents. About 15,000 private agents have contracted to sell All-Risk Crop Insurance. Several private insurance companies have sales and service agreements with FCIC. Also, many banks and Production Credit Associations are selling the insurance.

You can get brochures explaining the new Federal Crop Insurance program from county ASCS offices

WHO CAN BUY CROP INSURANCE?

Anyone who has an interest in an insurable crop--landlords, tenants, absentee landlords, and owner-operators.

WHAT ARE THE ADVANTAGES OF CARRYING THE INSURANCE?

You can recover lost production costs.

You are protected against crop losses from weather, lightning, fire, insects, plant diseases, flood, wildlife, earthquakes, volcanic, eruptions, and other natural disasters.

You can shoot for higher yields with extra fertilizer or other measures and cover those costs with insurance.

You can borrow production funds more easily, even pledging your insurance coverage as loan collateral payable jointly to yourself and the lender. That way, you can pay off the loan without liquidating any assets.

You can use insurance to cover cash rent in the event of crop failure.

You can pay your premiums after the harvest, which is a no interest loan.

You know ahead of time about how much and when you will get paid for losses.

The insurance adds stability to your annual income, and the premiums are fully tax deductible.

HOW DOES ALL-RISK CROP INSURANCE COMPARE WITH GOVERNMENT ASCS DISASTER PAYMENTS?

Generally, at the 75 percent level wheat coverage, a farmer could double the payment--from around \$45 per acre to \$90 per acre for less than \$7 per acre premiums in some localities.

WHAT ABOUT NEXT YEAR?

There will be no Government ASCS disaster payment program next year, but All-Risk Crop Insurance will be available in every county where the present six disaster crops are grown. Those crops are wheat, cotton, grain, sorghum, rice, corn, and barley.

Under the present ASCS disaster payments program, a few states got the bulk of the benefits. You had to "sign up" in a Government farm program to qualify for disaster payments, but any grower can buy Federal Crop Insurance.

CAN YOU GET DISASTER PAYMENTS AND ALL-RISK CROP INSURANCE TOO?

You can in 1981 only. Those who participate in the six-crop ASCS disaster assistance program will not be eligible for the 30 percent premium subsidy. But if you pay the full All-Risk Crop Insurance premium on the six crops, you are also eligible for the disaster payments.

Starting October 1, 1981, when the disaster program is terminated, all policyholders will be entitled to the 30 percent premium subsidy.

WHAT IF YOU THINK THE ALL-RISK CROP INSURANCE COVERAGE IS TOO LOW?

Next year you will be able to establish higher yields on your farm than the county average. Then FCIC will determine the appropriate yield for each individual farmer compared with the county average yields used this year.

HOW MANY FARMERS ARE LIKELY TO USE ALL-RISK CROP INSURANCE?

In 1983 over half the Nation's insurable acreage is expected to be covered by All-Risk Crop Insurance.

WHAT OTHER CHANGES WILL BE MADE NEXT YEAR?

There will be a streamlined application process with a multi-crop application form in 1982.

Documents will be processed more simply, thus providing faster and better service at lower costs.

WHAT 28 CROPS ARE NOW COVERED?

Almonds	Dry beans	Oats	Rice	Sweet corn
Apples	Flax	Peaches	Rye	Tobacco
Barley	Forage	Peanuts	Soybeans	Tomatoes
Citrus	Forage seeding	Peas	Sugar beets	Wheat
Corn	Grain Sorghum	Potatoes	Sugar cane	
Cotton	Grapes	Raisins	Sunflowers	

WHAT IS ALL-RISK CROP INSURANCE BETTER THAN DISASTER PAYMENTS?

There are several reasons:

1. All-Risk Crop Insurance is more equitable because farmers share the risks with the Government to protect against a severe crop loss.
2. All-Risk Crop Insurance is more efficient because for a given level of Government expenditure, more crops and more farmers are covered.
3. All-Risk Crop Insurance allows private enterprise an opportunity to participate in programs designed to help farmers cope with natural disasters.

II. Beginning Farmer and Rancher Project

New family farmers and ranchers are needed to replace those who retire or discontinue their operations for other reasons. Establishing a modern, full-time farm or ranch is a major, complex undertaking, usually requiring extensive financial, managerial and technical assistance.

The Department of Agriculture (USDA), helps to provide such assistance to part-time and beginning farmers and ranchers who demonstrate the desire and ability to become successful, full-time operators. The project is implemented through local county development committees.

How Does the Project Work?

Basically, the project brings together as many local public and private resources as possible to help new full-time farmers or ranchers. Local people in the community recommend candidates for the project who they feel will be successful. Recommendations may be made by any local person such as an active or retired farmer, a local agricultural leader, an FmHA county supervisor or a private lender. The recommendations are made in writing to the local "New Full-Time Family Farmer and Rancher Development Committee."

The local development committee receives the recommendations, reviews each candidate's proposal and assists the candidates in preparation of an annual and long-range farm or ranch plan.

Who is Eligible for the Project?

Candidates for the project may be individuals, a family partnership, or a family corporation. Candidates must have a strong agricultural background and other resources and show a need for access to capital on suitable terms.

Candidates must be able to project a realistic plan of operation and be willing to use management assistance and supervision offered by the New Full-Time Family Farmer and Rancher Development Committee.

How Does the Local Development Committee Help the Candidate?

The local development committee assures that the full range of USDA and other private and public resources are made available to the candidate. The committee will provide every opportunity for candidates to get off to the right start by consulting with local agricultural experts, projecting realistic and sound management plans, obtaining appropriate financing, and responding to annual reviews of progress and recommendations.

What Other Assistance is Available?

Local professionals, employed by each of the USDA agencies, are available at all times for technical assistance. They meet with both the committee and the candidate and provide their expertise in the development of a long-range plan.

Participants in the project also are assisted by guidance counselors who are recruited by the local development committees. Guidance counselors are volunteers who are active or retired farmers or other people with management expertise. They provide direct, on-site management assistance.

What is the Makeup of the Local Development Committee?

Members of the local (county) development committees are farmers and ranchers who currently serve on USDA committees or who, in some other way, assist in the local administration of USDA programs and services provided by the:

Agricultural Stabilization and Conservation Service (ASCS)
Cooperative Extension Service (CES)
Farmers Home Administration (FmHA)
Federal Crop Insurance Corporation (FCIC)
Forest Service (FS)
Soil Conservation Service (SCS)

Local development committees also include private sector volunteers who represent farm and forestry organizations, farm lending institutions, vocational agriculture, Future Farmers of America, or other groups as determined locally.

How Long Will Farmers and Ranchers Remain in the Project?

Candidates for the project must submit a realistic plan of operation which shows that by the end of the third year they will be devoting 100 percent of their time and effort to a successful operation. Also, it is expected that candidates will have the potential to progress and move on to private credit sources within 5 to 10 years.

Where Can Prospective Candidates Get More Information About the Project?

Further information on the New Full-Time Family Farmer and Rancher Development Project can be obtained from the local office of any of the participating USDA agencies noted above. They are listed in the "United States Government" section of the telephone director, under "Agriculture."

The 10 states and designated counties participating in the New Full-Time Farmer Pilot Project in Fiscal Year 1982 are:

ILLINOIS (5)

Greene
Jefferson
Kankakee
McDonough
Stephenson

MINNESOTA (7)

Clearwater
Kanabec
Kandiyohi
Kittson
Murray
Olmsted
Ottertail

MISSISSIPPI (10)

Calhoun
Copiah
George
Monroe
Newton
Pearl River
Pontotoc
Quitman
Washington
Yazoo

MISSOURI (10)

Barry
Cape Girardeau
Douglas
Johnson
Livingston
Mississippi
Nodaway
Osage
Randolph
Texas

NEBRASKA (10)

Box Butte
Buffalo
Custer
Dodge
Gage
Greeley
Knox
Red Willow
Wayne
York

PENNSYLVANIA (10)

Berks
Bradford
Center
Columbia
Crawford
Franklin
Huntington
Lancaster
Somerset
York

NORTH CAROLINA (5)

Alleghany
Jackson
Nash
Northhampton
Yadkin

TEXAS (7)

Haskell
Houston
Menard
Milan
Pecos
Starr
Van Zandt

NORTH DAKOTA (10)

Bottineau
Emmons
Hettinger
LaMoure
Mercer
Pierce
Richland
Sheridan
Stark
Williams

OREGON (7)

Clackamas
Douglas
Jefferson
Klamath
Linn
Malheur
Union

III. Rural Development Program

I invited you here today to discuss an administrative action I've just signed to establish the Office of Rural Development Policy--an office that will be reporting to the Under Secretary for Small Community and Rural Development. I feel that this is a significant action, especially in view of other actions that have taken place since 1970.

It began with the Agricultural Act of 1970. That action made rural development a major mission of the Department of Agriculture. The Rural Development Act of 1972 reinforced this mandate, and directed the Secretary of Agriculture to provide Executive Branch leadership and coordination to a national rural development effort. These mandates were restated in the Rural Development Policy Act of 1980, which directed us to prepare a national rural development strategy to be updated annually. That act also established the position of Under Secretary for Small Community and Rural Development.

As you know, Frank Naylor is the first person appointed to fill this new position. He has responsibility for the Farmers Home Administration, the Rural Electrification Administration and rural development policy.

By transferring the Department's rural development policy function from the Farmers Home Administration and elevating it to the Under Secretary's office, I hope to ensure better integration of agricultural concerns and rural development. I feel that this action will help strengthen our performance in both of these areas.

I firmly believe that you can't separate agriculture from rural development. Nearly 700 counties continue to have agriculture as a principal source of personal income. That tells me that the work we are doing to create a climate for a strong and prosperous agriculture, is, in itself, one of our primary rural development objectives.

At the same time, we have to understand that the actual business of farming does not dominate every rural community in this country. But I am gratified that there is a new rural economic environment that has produced a rapidly growing nonfarm economy in rural America.

I think that the key word we have to use as we look at rural America is "diversity." I'm talking about diversity in basic resources, basic needs and economic activity--not to mention the particular aspirations of rural citizens. It is this diversity that also creates the need for a rural development policy office of the type and level that I have just established.

Since it will report directly to the Under Secretary, the office will be able to help integrate rural development policy with a number of their departmental concerns, in addition to agriculture. The office should also facilitate close cooperation and coordination with activities and policy formulation of other Departments.

This is important because actions by other federal agencies have a significant impact on rural development. For example, natural resource extraction, power plants, and developments for industry, commercial projects and housing all impact on farmland preservation. We have to work in harmony with other agencies to develop a full spirit of cooperation.

It is this type of cooperation that is a primary concern of our Congressional mandate--and I am fully committed to carrying it out. It is also a type of cooperation that has to extend beyond the agencies of the federal government. It is becoming increasingly necessary that we also involve state and local governments and the private interests. The administrative arrangements that I am announcing today will make this type of coordination more workable.

The staff of the Office of Rural Development Policy is already working on the national rural development strategy that was called for by the Rural Development Policy Act of 1980. I know that this is a complex task--one that will take considerable time to design and fully implement. But, I believe the results will be worth our efforts.

I have directed the staff to give first priority to strategy preparation. What I am looking for is a practical strategy for responding positively to the diverse problems and opportunities in rural America.

To be more specific, I want a strategy developed for: (1) Identifying emerging rural issues and needs on an ongoing basis; (2) strengthening the state and local government role in rural development; (3) developing and implementing policy guidelines that can provide sound government program direction for service to rural America. In this area we will pay particular attention to strengthening local economic viability and improving community resources. Finally, we want a strategy for encouraging the private sector to take up the challenge of rural development.

It will be a great challenge to ensure revitalization in ways that preserve the heritage of rural America. But, I believe that the creativity, genius, and private resources are there, waiting to be applied

To help us at the national level, a number of individuals from rural America will be working with us through an advisory council that I am establishing. This National Rural Development Advisory Council will help identify rural concerns and will advise me on rural development issues. Membership on the council will be diverse. It will come from the private sector, and from state and local government.

IV. Soil and Water Conservation

Proposed Preferred USDA Program

The United States Department of Agriculture (USDA) prepared this Revised Draft Program Report and Environmental Impact Statement in response to provisions of the Soil and Water Resources Conservation Act of 1977 (RCA). This Act requires the Secretary of Agriculture to appraise the condition of the soil, water, and related resources on the nonfederal lands of the United States and to develop a national soil and water conservation program to guide USDA's future conservation activities on those lands.

Passage of the Act followed a growing awareness of the seriousness of resource problems in the Nation. American agricultural production has doubled in just the last 30 years in response to domestic and foreign demands for agricultural commodities. So far, American farmers have been able to meet those demands, but unless the resulting pressures on the Nation's agricultural resources are relieved, tomorrow's farmers may not be able to. Chapter 2 of this report outlines the need for action.

In the Act, Congress asked the Secretary three basic questions:

- o What are the resource problems?
- o How do you propose to solve these problems?
- o What are the expected results of your solution?

The Problems

The Secretary conducted an appraisal to determine the status, condition, and trends of the Nation's soil, water, and related resources. The 1980 RCA Appraisal showed that conservation problems threaten to reduce agricultural productive capacity and increase production costs. Specific findings of the Appraisal include:

- o Much agricultural land is eroding faster than the soil can rebuild itself through natural processes. Unless corrective actions are taken, the acreage of this excessively eroding land will increase further.
- o Floods threaten human life, property, livestock, and crops in upstream watersheds. The likelihood is for greater damage in the future.
- o Depletion of ground water threatens the continuation of irrigated agriculture in extensive areas of the West.
- o Deterioration of water quality limits potential use of water for irrigation, municipal and industrial supply, fish and wildlife habitat, and other purposes.

The 1980 RCA Appraisal is a detailed record of these and other resource problems and conditions. Chapters 3 and 4 of this report summarize the 1980 Appraisal. Chapter 5 presents the results of evaluations of several USDA conservation programs and recommends improvements.

The Solutions

Armed with appraisal data, analyses of resource condition, evaluations of existing programs, and the results of public participation activities, the Secretary set major objectives and established priorities for future soil and water conservation activities. He reviewed alternative ways for dealing with current and projected resource problems, and selected a preferred program.

The foundation of the preferred program is greater cooperation among local and state governments and the federal government in solving conservation problems and redirecting present programs. Cooperative solutions to conservation problems are not new. Local conservation districts and ASC and extension advisory committees have worked closely with their local USDA offices for years to provide assistance to land owners. The preferred program retains these existing organizations and relationships to recognize and solve conservation problems.

The program moves away from the "cafeteria," or "first come, first served," approach of traditional USDA conservation programs. It addresses instead specific national resource priorities. It targets soil conservation activities, reducing the most serious erosion and correcting related resource problems that impair the Nation's agricultural productivity.

The preferred program--

- o establishes clear national priorities for addressing problems associated with soil, water, and related resources over the next 5 years. The highest priority is reduction of soil erosion to maintain the long-term productivity of agricultural land. The next highest priority is reduction of flood damages where risks are highest in upstream areas. Water conservation and supply management, water quality improvement, and community-related conservation problems have next priority. Fish and wildlife habitat improvement and organic waste management are an integral part of solutions to these problems.
- o strengthens the existing partnership among land owners and users, local and state governments, and the federal government. Through this partnership, the program--
 - provides federal matching block grants to states for an expanded role in developing and implementing conservation programs, the federal funds to be obtained by reducing current federal conservation program funds.
 - provides for a Local Conservation Coordinating Board made up of representatives of the conservation district, county ASC committee, extension advisory committee, and other interested parties. This board will appraise local conditions and needs and develop a program

- through existing local, state, and federal institutions. The local board will identify critical resource problem areas and set priorities for action to achieve program objectives.
- provides for a State Conservation Coordinating Board, with members appointed by the Governor, to appraise overall state resource conditions and needs. This board will build on local programs in identifying statewide critical problem areas, setting priorities, and developing the state program.
- establishes a USDA National Conservation Board to advise the Secretary of Agriculture on conservation matters.
- bases state and federal cooperative conservation actions on an agreement between each Governor and the Secretary of Agriculture.
- o provides for increased and more efficient cooperation and budget coordination among USDA agencies with conservation program responsibilities.
- o continues or initiates actions to--
 - target an increased proportion of USDA conservation program funds and personnel to critical areas where soil erosion or other resource problems threaten the productive capacity of soil and water resources.
 - emphasize conservation tillage and other cost-efficient measures for reducing soil erosion and solving related problems.
 - evaluate tax incentives as an inducement to increased use of conservation systems.
 - increase emphasis on technical and financial assistance to farmers and ranchers who plan and install needed and cost-efficient conservation systems.
 - target USDA research, education, and information services toward problems that impair agricultural productivity, while continuing basic research into the cause and cures of resource degradation.
 - set up pilot projects to test new solutions to conservation problems.
 - require land owners to have a conservation plan in order to be eligible for Farmers Home Administration loans.
 - minimize conflicts among features of USDA farm programs that limit achievement of conservation objectives.
 - strengthen collection and analysis of resource data.
 - evaluate and analyze conservation progress.
 - expand the use of long-term agreements in providing conservation assistance to farmers or ranchers.

In addition to the preferred program, the Secretary looked at many options and developed and considered two other alternatives. (1) Under the first of these alternatives, current trends in USDA soil and water conservation programs would continue. These trends, if continued, would result in lower funding and further degradation of soil, water, and related resources. (2) Under the second alternative, USDA would redirect its programs so that it would target a larger share of its assistance to solving critical resource problems. Resource conditions would at best improve only slightly from what they are now.

The Secretary rejected these alternatives as too weak to solve the problems and unresponsive to public opinion.

Chapter 6 shows the alternatives and options that the Secretary developed and considered. Chapter 7 presents the Secretary's preferred program.

What to Expect

As a result of implementing the Secretary's preferred program, the following can be expected:

- o Conservation efforts will be more effective because they will be planned and carried out in response to clear objectives and priorities.
- o Emphasis on cost-efficient solutions to conservation problems should increase the acceptance and adoption of conservation methods and accomplish more for each private and public dollar spent.
- o The loss of soil and water resources will be slowed but not reversed. Implementing a program to reduce degradation of soil to tolerable limits would be prohibitively expensive.
- o State and local governments will have a steadily expanding role in developing and implementing conservation programs.

Chapter 8 outlines the environmental, economic, and social effects that would likely follow implementation of the preferred program.

Program Evaluations

Once the program is in place, USDA will conduct continuing evaluations to ensure that all of its conservation activities are effective and well managed. Each agency will evaluate the specific programs for which it is responsible. Annually, the Chief of the Soil Conservation Service will prepare an RCA evaluation report for consideration by the Secretary and transmission to the Congress. Chapter 9 outlines procedures for evaluating USDA's soil and water conservation programs.

Consulting the Public

The Secretary has consulted the public at key points during program development. Public opinion has helped to shape the preferred program and is essential to preparation of a final program that the people of the Nation can encourage and support. Chapter 10 outlines public participation activites conducted to date, presents a list of those who prepared this report, and shows who received copies.

How to Comment

USDA has distributed 30,000 copies of this program report and 400,000 copies of a summary of this report nationwide. The summary includes a form that you can use for commenting on provisions of the preferred program. Please mail your comments to the appropriate state office of the Soil Conservation Service no later than January 15, 1982.

The Secretary welcomes your comments and will consider them in developing the final program as required by the Act.

IV. Soil and Water Conservation

Preferred Soil and Water Conservation Program - Public Comment Period

The public comment period ended January 29, 1982, on the Secretary's preferred soil and water conservation program under the Soil and Water Resources Conservation Act of 1977 (RCA). Responses received on or before February 8, 1982, will be counted; more than 80,000 have been received so far. State reports of public comments will be transmitted to the National Office of the Soil Conservation Service by March 5, 1982.

A national report on the preferred RCA program is to be completed by April 2, 1982. No separate State reports will be released before the national report is issued by the Secretary.

HIGHLIGHTS OF RESOURCE CONSERVATION PROVISIONS INCLUDED IN THE AGRICULTURE AND FOOD ACT OF 1981

- o The Secretary of Agriculture is allowed to establish soil, water, and related resource conservation programs in designated special areas, by providing technical and financial assistance to owners and operators of farms, ranches, and certain other lands at their request. Contracts for aiding owners and operators are to be designed to provide assistance in allowing them to make voluntary changes in their cropping systems in order to conserve or protect the soil, water, or related resources of the land. Special areas may be designated at any time through September 30, 1991 (but may not exceed 225 active areas) and contracts may be written up to 10 years after the designation of a special area.
- o The Watershed Protection and Prevention Act is expanded to include Indian tribes or tribal organizations. Additionally, the Secretary is permitted to bear half the cost of acquiring easements or rights-of-way by local organizations in lessening the impact of fish and wildlife habitats.
- o The Secretary may formulate and implement annual grants to local units of government through State conservation agencies for furthering soil, water, and related resource conservation. These grants must augment, rather than replace, other technical and financial programs of the Department of Agriculture.
- o The CCC may make loans of up to \$25,000 for not more than 10 years to producers in order to alleviate natural resource conservation problems that reduce the productive capacity of the Nation's land and water resources or that cause degradation of environmental quality. Loans up to \$10,000 may be unsecured. The total of all loans for each fiscal year should not exceed \$200 million.

Source: SCS Information Staff

3/8/82

- o The Secretary is authorized to identify no more than 5 publicly owned reservoir and drainage areas where sedimentation is a critical problem and develop a plan for reducing the sedimentation problem in those reservoirs after consultation with State and local units of government.
- o The Department of Agriculture, as well as other Federal agencies, have been asked to review and take measures where needed to ensure that activities of the Federal Government do not cause U. S. farmland to be irreversibly converted to nonagricultural uses when those other uses do not override the importance of maintaining farmland resources.
- o The Secretary is urged to inform farmers on the costs and benefits of using conservation tillage to control soil erosion and improve productivity. In addition, the Congress has suggested that a research program should be instituted to resolve any questions that arise when comparing this practice to other conservation methods.

CONSERVATION ISSUES

Other Program Changes in FY 1982 and Proposed Changes in FY 1983

Conservation Operations including Conservation Technical Assistance: In FY 1982, this appropriation was reduced \$1.1 million. Some reductions in technical assistance will be necessary due to reduced buying power. Being considered are possible cutbacks on nonagricultural urban assistance, rural development, aquaculture, forestry, conservation education, agricultural waste management systems, wildlife assistance, and others. Publication of soil surveys will be reduced significantly.

Great Plains Conservation Program (GPCP): In FY 1982, absorption of pay costs will delay signing of about 25 contracts covering 70,000 acres. The proposal for 1983 would reduce the appropriation \$6.6 million or 31 percent, and would result in postponement of signing and implementing about 250 new GPCP contracts.

Watershed Planning: Funds available for FY 1982 will result in a 20 percent cutback in plan completions; Congress authorized up to 35 new planning starts this fiscal year. For FY 1983, the proposal is for the same funding as in FY 1982, and for 10 new planning authorizations for high priority projects.

Watershed and Flood Prevention Operations: Operations in FY 1982 will be at a lower level than in FY 1981. Congress called for 25 new construction starts in FY 1982, but the Administration's current prohibition on new construction starts remains in effect, and no new starts are planned. The FY 1983 budget proposes a decrease of \$76.5 million or 40 percent in watershed and flood prevention operations, other than emergency work. There would be no new construction starts in FY 1983. All available funds will go toward completing work already under way. Decreases in this and other programs are tied to the need to hold down spending as part of the President's Economic Recovery Plan.

Rural Abandoned Mine Program (RAMP): In FY 1982, there will be a reduction of more than 50 percent in the program. No new RAMP contracts will be signed and new planning will be terminated. In FY 1983, the funds available will go toward fulfilling RAMP contracts already signed with owners of rural abandoned coal-mined lands. The Administration proposes trasnferring the program to the States.

V. Small Farms

Extension Program for New England

The Extension component of the New England Small Farmer Project focuses on increasing the economic viability of small scale commercial farmers by (1) providing technical assistance in production, management, and marketing for small farmers, and (2) training USDA personnel, paraprofessionals, NESFP fieldworkers, and farmers in small farm economic development. Both of these approaches emphasize increasing on-farm or farm-related income to enable small farmers to remain in farming while maintaining a reasonable standard-of-living. They also emphasize using paraprofessionals, training existing USDA staff, and integrating current research and Extension efforts--all cost effective methods.

The Extension work of the New England Small Farmer Project will include three major programs during 1981-83:

(1) Small Farm Management Assistance Program. This program is designed to help small farm families with limited educational, financial, and natural resources to obtain the farm management skills and locate the information with which to improve their economic situation. The program will be evaluated on the basis of the progress participating farm families make toward annually achieving their self-identified goals. The long term goal is to increase and stabilize farm income.

The objectives of this program, as developed by Ron Aaronson (Assistant Director, Agriculture and Community Resource Development (CRD), Connecticut Cooperative Extension Service (CES)), John Damon (Program Leader, Agriculture and CRD, New Hampshire CES), Forest French (CRD Specialist, Maine CES) and Bob Geffen (Small Farm/Rural Development Specialist) are:

- (a) To recruit locally and train retired or part-time farm men and women as paraprofessional Small Farm Management Assistants. Training will include technical information, transfer of information to small farm families, as well as an analysis of the institutional and economic barriers confronting small farm families and ways to overcome these barriers.
- (b) To identify in each county where an assistant is placed, 30-40 limited resource small farm families to be enrolled in the program. Eligible farm families will be those who: provide the majority of farm labor and management, depend or intend to eventually depend on the farm as the primary income source, have a family income below the farm family median income for the state in which it is located, exhibit motivation to be in commercial agriculture and to participate in the program, and have not had extensive involvement in Extension programs.
- (c) To seek women and minorities as assistants and program participants in ratios to the women and minority mix in the counties selected.
- (d) To improve, through frequent farm visits by the Assistants, the farm management, production, and marketing skills of each participant

- (e) To improve participation of the farmers in the USDA programs, including Extension, Farmers Home Administration, Soil Conservation Service, and the Agricultural Stabilization and Conservation Service.

In July 1980, Bob Geffen met with Extension administrators, farm management specialists, and county agents from the six New England states to involve them in the development of this program. Since then, several committees have met to refine the paraprofessional program objectives and measures for evaluation and to design a training curriculum. Private church funding of the paraprofessionals is being pursued for FY 81. New England Extension personnel will meet on December 16 to finalize plans for implementation of the program. The present target date for hiring the paraprofessionals is February 1, 1981.

(2) Diversified Farm Planning Program. Small diversified farmers have been requesting assistance in planning the optimum mix of enterprises that will utilize their land, labor, and capital in such a way as to maximize their income. For example, a small dairy goat operation could also produce vegetables, small fruits, and/or maple syrup, depending on the farm. Given a planning process and the necessary budget information, the farmer, Extension agent, or paraprofessional could assess the resources on the farm, production and marketing requirements of new enterprises, and sources of additional resources to figure out the best mix of enterprises for that farm. This process would also aid hard-pressed small and medium-sized dairy farmers looking to diversify in the face of an uncertain dairy situation.

The Diversified Farm Planning Program is being undertaken by Extension farm management specialists at the University of Massachusetts and the University of New Hampshire. They have begun to develop a model planning process through which small farmers and outreach personnel can work out the optimum combinations of enterprises for small scale commercial farms. They will compile and generate all necessary enterprise budgets and work through the planning process with small farmers to insure that the process is appropriate for on-farm use. Programmable calculators or other appropriate computer technology will probably complement workbooks in the final product.

During 1981-83, the objectives of the Diversified Farm Planning Program will be:

- (a) To do outreach with the diversified farm planning process developed during 1980-81. Outreach will include publications, demonstration of programmable calculators or other appropriate computer technologies that may be used, and workshops to train farmers, USDA agents, and paraprofessionals in the use of the planning process;
- (b) To update the diversified farm planning process to include new information on small farm systems currently being developed by the Agricultural Experiment Stations, USDA in Beltsville, Maryland, and other research institutions;
- (c) To expand the diversified farm planning process so that it can be used to help small farmers obtain credit (e.g., training FmHA supervisors in the use of the process);
- (d) To enable small farmers to incorporate opportunities for value-added enterprises into the farm planning process (i.e., to make use of the information assembled by the Business Development Program, below).

(3) Small Farm-Based Business Development Program. This new program will help small farmers to identify and develop opportunities for increasing their incomes by adding value to their raw products and labor through processing, storage, and marketing. The objectives of this program will be to:

- (a) Gather data on the economic feasibility of various farm-based businesses (e.g., sauerkraut, pickles, various types of meat processing, root crop storage, cider, drybean packing). This work will be done in cooperation with the New England Agricultural Experiment Stations and will build on the experiences of those individuals in the Northeast who are presently engaged in these enterprises.
- (b) Train small farmers, USDA personnel, paraprofessionals, and other outreach workers in business management and organization for economically feasible farm-based businesses. Most of this training will utilize business consultants. It is expected that cooperative business structures will be a key aspect of this training: coordination with the Economics, Statistics, and Cooperatives Service's field office in Maine will be assured.

The New England Small Farmer Project has already initiated training in cooperative development through its support and planning assistance for the Working Conference on Rural Producer Cooperatives, held on November 20-21, 1980. This conference trained over 100 small farmers and other rural producers in the practical application of cooperative business structures to their own economic development. Service agency individuals were also trained to provide technical assistance and referrals for clients interested in cooperative development. Instruction in specifics such as cooperative management, business organization, bookkeeping, marketing, quality control and financing was provided by experienced individuals from the public and private sectors from around the country.

Regional Coordination and Support

The three proposed programs will be coordinated regionally among the Cooperative Extension Services, Agricultural Experiment Stations, and other USDA agencies in New England by the Small Farm/Rural Development Specialist. Support for these programs will be provided by the Small Farm Resource Center located at the University of Massachusetts. This Resource Center houses an extensive collection of technical information on small farming.

